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090487-GU

October 22, 2009

VIA HAND DELIVERY

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short Term Borrowings in 2010.

Dear Ms. Cole:

Enclosed for filing, please find an original and 3 copies of the Application of Chesapeake Utilities Corporation for Authority to Issue Stock, Secured and Unsecured Debt, and to Enter into Agreements for Interest Rate Swap Products, Equity Products, and other Financial Derivatives, and to Exceed the Limitation on Short Term Borrowings During the Calendar Year 2010, along with a copy of the pleading on CD in Word format. A copy of this filing has also been provided to the Office of Public Counsel.

Your assistance in this matter is greatly appreciated. If you have any questions, please do not hesitate to contact me.

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Sincerely,

Beth Keating
AKERMAN SENTERFITT
106 East College Avenue, Suite 1200
Tallahassee, FL 32302-1877
Phone: (850) 224-9634
Fax: (850) 222-0103

Enclosures
cc: Office of Public Counsel

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Application of 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, Equity Products and Other Financial Derivatives, and To Exceed Limitation Placed on Short-Term Borrowings in 2010.	Docket No. Filed: October 22, 2009

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, EQUITY PRODUCTS AND OTHER FINANCIAL DERIVATIVES, AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2010

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority in 2010 to issue up to 5,000,000 shares of Chesapeake common stock; up to 1,000,000 shares of Chesapeake preferred stock; up to $120,000,000 in secured and/or unsecured debt; to enter into agreements for up to $40,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives; 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 2010, in an amount not to exceed $100,000,000.

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
   1501 Sixth Street, NW
   Winter Haven, Florida 33881

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:

Beth Keating, Esquire
Akerman Senterfitt
Suite 1200
106 East College Avenue
Tallahassee, Florida 32301
(850) 224-9634
(850) 222-0103 (Fax)

Attorneys for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt

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

a) Common stock having a par value of $0.4867 per share.

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

c) Amount outstanding as of June 30, 2009 : 6,870,755

d) Amount held in Treasury: 0 shares.

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 a par value of $0.01 per share.

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

c) Amount outstanding as of June 30, 2009: 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 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, 2009, there is a remaining balance of $1,566,000 on this issue.

(a)2 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, 2009 there is a remaining balance of $1,818,182 on this issue.

(a)3 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, 2009, there is a remaining balance of $3,000,000 on this issue.

(a)4 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, 2009, there is a remaining balance of $12,000,000 on this issue.

(a)5 6.64% Unsecured Senior Notes due October 31, 2017 and 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 per annum. As of June 30, 2009, there is a remaining balance of $24,545,455 on this issue.

(a)6 5.50% Unsecured Senior Notes due October 12, 2020 and issued on October 12, 2006 in the principal amount of $20,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 12, 2011; thereafter, principal shall be payable, in addition to interest on the unpaid balance, for ten (10) years at the rate of $2,000,000 per annum. As of June 30, 2009, there is a remaining balance of $20,000,000 on this issue.

(a)7 5.93% Unsecured Senior Notes due October 31, 2023 and issued on October 31, 2008 in the principal amount of $30,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to October 31, 2014; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of $3,000,000 per annum. Accordingly, as of June 30, 2009, there is a balance of $30,000,000 on this issue. Pursuant to the Delaware Public Service Commission (DPSC) Order No. 7065, Docket No. 06-339 dated October 31, 2006, the Commission authorized the Company to issue up to $40,000,000 in common stock and/or debt securities over a three-year period pursuant to a Shelf Registration Statement. Under the Shelf Registration Statement, the Company previously issued $20,000,000 in common stock. Accordingly, $20,000,000 of the $30,000,000 in principal amount of Unsecured Senior Notes to be issued to two subsidiaries of Metropolitan Life Insurance Company, General American Life Insurance Company and New England Life Insurance Company (collectively hereafter referred to as MetLife), was issued pursuant to the DPSC's approval of the Company's Shelf Registration Statement. Copies of the Shelf Registration Statement and the DPSC Order have been previously filed with the FPSC within Exhibits D and F, respectively, of the 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, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term

Borrowings in 2008, Docket No. 070640-GU, dated November 29, 2007, and are hereby incorporated by reference. On September 29, 2008, the Company filed an Application with the DPSC requesting authorization for the issuance of an additional $10,000,000 in principal amount of Unsecured Senior Notes to be issued to MetLife. A copy of the Application 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 Enter into Agreements For Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2009, Docket No. 080635-GU, dated November 19, 2008, and is hereby incorporated by reference. On October 23, 2008, the Company received authorization from the DPSC to issue the additional $10,000,000 in long-term debt pursuant to DPSC Order No. 7464, Docket No. 08-305. A copy of the Order has been previously filed with the FPSC as Exhibit C of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 070640-GU, dated March 27, 2009, and is hereby incorporated by reference. Attached hereto as Exhibit C is a copy of the $30,000,000 Note Agreement for the 5.93% Unsecured Notes.

(b) The amounts authorized are set forth above.

(c) The amounts outstanding at June 30, 2009 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.

(h) Additional information:

On April 20, 2009, Chesapeake Utilities Corporation and Florida Public Utilities Company (FPU) announced execution of a definitive merger agreement, pursuant to unanimous approval from Chesapeake's Board of Directors on April 17, 2009. Upon completion of the merger, FPU will operate as a wholly-owned subsidiary of Chesapeake. The merger is subject to the requirements of the Hart-Scott Rodino Act (HSR Act) and various regulatory approvals as well as approvals by the shareholders of both companies. On May 4, 2009, Chesapeake provided the required information according to the HSR Act provisions to the Antitrust Division of the United States Department of Justice and the Federal Trade Commission. The statutory waiting period for the HSR Act expired on June 4, 2009, without comment from the Antitrust Division of the United States Department of Justice or the Federal Trade Commission, thus allowing the companies to continue with the merger. However, the expiration of the HSR waiting period does not preclude the Anti-Trust Division of the United States Department of Justice or the Federal Trade Commission from challenging the merger on antitrust grounds. Pursuant to the regulatory application filed with the DPSC on May 18, 2009, the Company sought approval to issue up to 2.6 million shares of Chesapeake common stock in exchange for the outstanding common shares of FPU. On June 16, 2009, the Company received authorization from the DPSC to issue up to 2.6 million shares of common stock in connection with the Company's imminent merger with FPU pursuant to DPSC Order No. 7591, Docket No. 09-215. A copy of the DPSC

Application and Order are attached hereto as Exhibits D and E, respectively. On November 19, 2008, the Company had received blanket approval from the FPSC to issue up to 3,430,421 shares in conjunction with acquisitions, pursuant to the 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, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2009, Docket No. 080635-GU, dated November 19, 2008. Accordingly, the estimated 2.6 million shares to be issued to FPU shareholders have received the necessary FPSC authorization pursuant to the blanket approval. The Maryland Public Service Commission (MPSC) requires Chesapeake to submit a notice filing to the MPSC prior to the issuance of Chesapeake common stock. On May 19, 2009, the Company submitted to the MPSC, the requisite notification of intention to issue stock as consideration in the merger. On July 15, 2009, in response to Chesapeake's notification, the MPSC acknowledged that, as a result of the merger transaction meeting certain exceptions to the approval requirement under Maryland regulations, no MPSC approval is required for the issuance of Chesapeake common stock in the merger. In addition, no regulatory filings or actions are required by the Federal Energy Regulatory Commission for approval of the transaction or securities associated with the merger. The issuance of Chesapeake's common stock in connection with the pending merger transaction was registered under the Securities Act of 1933, as amended, pursuant to Chesapeake's registration statement on Form S-4 (File No. 333-160795)

initially filed by Chesapeake with the Securities and Exchange Commission on July 24, 2009 and declared effective on September 10, 2009. Chesapeake's Form S-4 registration statement, including the Joint Proxy Statement/Prospectus included therein, provides details about Chesapeake and FPU, including financial information, and describes the specific terms of the merger transaction, including the issuance of shares and the exchange ratio upon completion of the merger transaction. In addition, the Joint Proxy Statement/Prospectus provides notification of the respective special shareholder meetings for Chesapeake and FPU shareholders to vote on the adoption of the merger agreement and the plan of the merger.

Based on the number of FPU common shares outstanding on August 24, 2009, the record date, Chesapeake estimated that the Company will issue approximately 2.6 million shares of its common stock, par value $0.4867 per share to FPU shareholders in connection with the merger. Immediately prior to the merger, based on the number of shares of Chesapeake and FPU common stock outstanding on the record date, Chesapeake shareholders will own approximately 73 percent of the combined company and former FPU common shareholders will own approximately 27 percent of the combined company. FPU shareholders will receive 0.405 shares of Chesapeake common stock for each share of FPU common stock owned. Chesapeake shareholders will continue to own their existing Chesapeake shares. A copy of the Joint Proxy Statement/Prospectus relating to the merger as filed with the Securities and Exchange Commission on Registration Statement Form S-4

pursuant to Rule 424(b)(3) dated September 15, 2009 is attached hereto as Exhibit F.

On October 22, 2009, Chesapeake and FPU will hold their respective shareholder meetings related to approval of the merger agreement and the merger. Although there can be no assurances as to whether the merger will close or the actual timing of the closing, the Company expects to close the merger transaction on October 29, 2009, effective November 1, 2009. Prior to the merger closing, FPU will redeem all of its outstanding shares of preferred stock at the redemption prices(s) stipulated in the terms of the stock agreements, together with dividends accrued and unpaid to the date of such redemption.

In conjunction with the consummation of the upcoming merger agreement, Chesapeake anticipates that FPU, upon becoming a subsidiary of Chesapeake will hold approximately $47,861,000 in long-term debt, based on the long-term debt reported in FPU's Form 10-Q as of June 30, 2009.

(h)2 During the fourth quarter of 2008, the Company increased its total committed short-term borrowing capacity from $15,000,000 to $55,000,000 under its two committed lines of credit. To maintain the same total line capacity of $100,000,000, the uncommitted lines of credit with two of the three banks were reduced accordingly. As of the filing date, the Company has four unsecured bank lines of credit with two banks. In October 2009, the Company did not renew its $10,000,000 uncommitted revolving credit facility with the third bank, thus reducing the Company's total line capacity from $100,000,000 to $90,000,000. The Company currently has two unsecured, committed bank lines of

credit in the amounts of $30,000,000 and $25,000,000; and two unsecured, uncommitted bank lines of credit in the amounts of $20,000,000 and $15,000,000. For the $15,000,000 unsecured, uncommitted line of credit, $5,000,000 of the total line can be used to guarantee letters of credit issued by Chesapeake or one of its subsidiaries for up to 364 days. As of June 30, 2009, the total short-term borrowing outstanding under the bank lines of credit was $2,000,000.

5. Authorizations Requested

Chesapeake requests authorization from the FPSC to issue up to 371,463 new shares of its common stock during 2010 for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, conversion of the Company's Convertible Debentures, Directors Stock Compensation Plan, and Employee Stock Awards Plan. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
60,000	Issuance pursuant to the Company's Retirement Savings Plan.
100,000	Issuance under the terms of the Company's Performance Incentive Plan.
100,000	Issuance pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan.
92,063	Issuance under the terms of the Company's outstanding 8 ¼% Convertible Debentures.
14,400	Issuance pursuant to the Company's Directors Stock Compensation Plan.
5,000	Issuance under the terms of the Company's Employee Stock Awards Plan.

In addition, Chesapeake is requesting FPSC authorization to issue up to 800,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2010 to permanently finance Chesapeake's ongoing capital expenditure program. The capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may from time to time, permanently finance its short-term borrowings through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt.

Chesapeake requests FPSC authorization to issue up to $60,000,000 in secured an/or unsecured debt during 2010 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 2010 to issue up to 3,828,537 shares of common stock and up to $60,000,000 in secured and/or unsecured debt for possible acquisitions, including, if approved, the 2.6 million shares of common stock to be issued to FPU shareholders upon the approvals of the respective companies' shareholders. Due to the nature of typical cash for stock acquisitions, the $60,000,000 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 $100,000,000 during 2010. 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 in 2010, 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, and subsequently, modified and extended by the Board of Directors on September 12, 2008. On September 12, 2008, the Board extended the expiration of the Rights form August 20, 2009 to August 20, 2019 and increased the Exercise Price per share from $54.56 to $105 A copy of the First Amendment to Rights Agreement and Securities and Exchange Commission Form 8-K pursuant to Chesapeake Utilities Corporation's First Amendment to Rights Agreement has been previously filed with the FPSC within 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 Enter into Agreements for Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2009, Docket No. 080635-GU, dated November 19, 2009, and is hereby incorporated by reference.

Chesapeake further seeks FPSC approval to enter into financial agreements with institutions in 2010 to negotiate and execute financial derivatives enabling the Company to lock in its future financing costs and minimize its risk. A financial derivative is a risk-shifting agreement, the value of which is derived from the value of an underlying asset. The underlying asset could be

a physical commodity, an interest rate, a company's stock, a stock index, a currency, or virtually any other tradable instrument upon which two parties can agree. A financial derivative can be used for hedging, protecting against financial risk, or can be used to speculate on the movement of commodity or security prices, interest rates or the levels of financial indices. Financial derivatives fall into two categories. One consists of customized, privately negotiated derivatives, referred to as over-the-counter (OTC) derivatives or swaps. The other category consists of standardized, exchangeable derivatives, known generically as futures. In addition, there are various types of products within each of the two categories. The Company has attempted to identify below some of the financial derivatives that the Company may evaluate in 2010, although the listing is not intended to be all-inclusive. Rather, the Company seeks approval to evaluate and employ those financial derivatives that would mitigate its financial risk associated with a particular financing transaction(s).

Chesapeake is proposing to have the flexibility and authority to enter into the following (a) Treasury rate locks, credit spread locks, interest rate swaps, collars, caps and/or floors (the "Interest Rate Swap Products"); (b) equity collars, floors, prepaid forward contracts, covered calls, forward sales and purchases and/or equity-linked instruments (the "Equity Products"); or (c) any other Financial Derivatives that meet the objectives described above on such terms as Chesapeake considers to be appropriate, provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives do not, in the aggregate, exceed the sum of $40,000,000.

Chesapeake Utilities Corporation allocates funds to the Florida Division on an as-needed basis, although in no event would such allocations exceed 75 percent of the proposed equity securities (common stock and preferred stock), long-term debt, short-term debt, Interest Rate Swap Products, Equity Products and Financial Derivatives, pursuant to which approval is being sought by this Application.

6. Purposes for which Securities are to be issued:

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 2009, the RSP had 407 active participants; a total market valuation of approximately $35,711,399 and 495,904 shares of the Company's common stock. The Company filed a revised RSP Document with the Internal Revenue Service ("IRS"), and received a favorable determination letter. The changes made to the RSP Document were primarily associated with the IRS' most recent Code changes and did not change the underlying features of the administration of the RSP. The key driver in filing the revised RSP Document was the IRS' mandated determination letter filing cycle. A copy of the RSP Document filed with the IRS has been previously filed with the FPSC within 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 2008, Docket No. 070640-GU, dated November 29, 2007, and is 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 within 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 within 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 476,324 new shares of common stock for the RSP as of June 30, 2009. Thus, there remains to be issued 23,676 shares as authorized by the Delaware Public Service Commission. Chesapeake will be seeking authorization for the issuance of an additional 300,000 shares of common stock for the RSP from the DPSC in 2010. In 2010, the Company expects to issue 37,998 shares of the additional 300,000 shares for which DPSC authorization is being sought.

The FPSC approved the issuance and sale of up to 45,710 shares of common stock for the Plan during 2009 by Order No. PSC-08-0769-FOF-GU issued on November 19, 2008. Chesapeake now seeks FPSC authorization to issue up to 60,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Retirement Savings Plan during 2010.

(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 within 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. A copy of this Order has been previously filed with the FPSC within 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, 2005; 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. A copy of this Order has been previously filed with the FPSC within 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.

The pre-existing PIP expired on December 31, 2005, and the Company's current PIP was effective January 1, 2006. Stock awards granted prior to 2006, were under the authority of the pre-existing PIP. Stock awards granted in 2006 through 2014, to the extent earned and awarded in such years, have been and will continue to be issued under the authority of the current PIP.

On February 24, 2005, Chesapeake's Board of Directors adopted the current PIP, which applied to performance beginning January 1, 2006, and approved

400,000 shares of common stock to be authorized and reserved for issuance. The current PIP as adopted by the common shareholders of Chesapeake on May 5, 2005 allows for the issuance of restricted stock in the form of performance share awards. In addition, the current PIP, allows performance shares to be awarded to those key employees of the Company whom a designated committee, composed of independent directors chosen by the Board determines, are in positions to contribute significantly to the long-term growth, development, and financial success of the Company, and will encourage those employees to obtain proprietary interest in the Company and to remain as employees of the Company as well as to assist the Company in recruiting able management personnel. Under the current PIP, no more than 25,000 shares are to be awarded to any one executive in any calendar year. The current PIP expires on December 31, 2014. On April 26, 2005, the Delaware Public Service Commission issued Order No. 6607 approving the issuance of 400,000 shares of Chesapeake common stock for the purpose of administering the current PIP. A copy of the Application and Order have been previously filed with the FPSC within Exhibit D, as well as Chesapeake's Performance Incentive Plan document for 400,000 shares within Exhibit E, 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 2006, Docket No. 050630-GU, dated September 21, 2005, and is hereby incorporated by reference.

Pursuant to the PIP, Chesapeake has issued 28,707 shares of common stock as of June 30, 2009. Thus, there remains to be issued 371,293 shares as authorized by the Delaware Public Service Commission. The FPSC approved

the issuance and sale of up to 200,000 shares of common stock for the PIP during 2009 by Order No. PSC-08-0769-FOF-GU, issued on November 19, 2008. Chesapeake now seeks FPSC authorization to issue up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 2010. The 100,000 shares should be adequate to cover any shares issued in 2010 pursuant to awards granted to executives and other key officers of the Company and its subsidiaries for 2009.

(c) Chesapeake's 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, 2009, the DRP had 1,313 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 within

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 within 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. On August 5, 2004, Chesapeake's Board of Directors approved 750,000 additional shares of common stock to be authorized and reserved for issuance under the Dividend Reinvestment and Stock Purchase Plan, as well as several amendments to the terms of the Plan. The amended plan (a) allows for direct stock purchases by persons who at the times of purchase are not shareholders of the Company; (b) establishes the minimum investment amount for direct stock purchases by persons who are not shareholders of the Company; (c) fixes the minimum monthly and maximum annual optional cash investment limits for participating shareholders; (d) allows for direct debiting of shareholder-designated bank accounts for purchases; and (e) adds a provision to the Plan, whereby the Company, with the prior approval of the Board of Directors or under guidelines adopted by the Board of Directors, could on a case-by-case basis waive the maximum annual optional cash investment limit and accept investments in excess of that amount. On

December 21, 2004 the Delaware Public Service Commission issued Order No. 6543, approving the issuance of an additional 750,000 shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan. 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 within Exhibit C of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 030942-GU, dated March 22, 2005, and is hereby incorporated by reference. In addition, on December 16, 2008, Chesapeake filed a Registration Statement on Form S-3 with the Securities and Exchange Commission relating to the registration of 631,756 shares of the Company's common stock under the Dividend Reinvestment and Direct Stock Purchase Plan. The Registration Statement was declared effective by the Securities and Exchange Commission on January 5, 2009 and replaces the prior Registration Statement in place for the Plan that had previously expired. A copy of the Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 16, 2008 has previously been filed with the FPSC as Exhibit D of the Consummation Report of Securities Issued by Chesapeake Utilities Corporation, Docket No. 070640-GU, dated March 27, 2009, and is hereby incorporated by reference.

Pursuant to the Orders above, Chesapeake has issued 630,971 new shares of common stock as of June 30, 2009. Thus, there remains to be issued 619,029 shares as authorized by the Delaware Public Service Commission.

The FPSC approved the issuance and sale of up to 400,000 shares for the DRP during 2009 by Order No. PSC-08-0769-FOF-GU, issued on November 19, 2008.

Chesapeake now seeks FPSC approval to issue up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan during 2010.

(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, 2009, $1,566,000 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 92,063. 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 issued, 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 within 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, 2009, a cumulative $2,509,000 of the Convertible Debentures has been converted. The FPSC approved the issuance and sale of up to 104,469 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 2009, by Order No.PSC-08-0769-FOF-GU, issued on November 19, 2008. Chesapeake now seeks FPSC authorization to issue up to 92,063 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2010.

(e) On February 24, 2005, the Board adopted Chesapeake's Directors Stock Compensation Plan (DSCP) and on May 5, 2005, the DSCP received shareholder approval. Under the DSCP each non-employee director who is elected as a director or whose service as a director will continue after the date of the respective Annual Meeting will receive, as compensation for services during the ensuing year, an award of no more than 1,200 shares of

the Company's common stock on the date of the Company's Annual Meeting. The DSCP enhances the Company's ability to attract, motivate and retain as non-employee directors persons of training, experience and ability and to encourage the highest level of non-employee director performance by providing such directors with a proprietary interest in the Company's growth and financial success. The DSCP expires on December 31, 2015.

On April 26, 2005, the Delaware Public Service Commission issued Order No. 6607 authorizing Chesapeake to issue up to 75,000 shares of common stock to administer the Company's DSCP.

A copy of the Application, and Order have been previously filed with the FPSC within Exhibit D, as well as the DSCP plan document within Exhibit F of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed the Limitation Placed on Short-Term Borrowings in 2006, Docket No. 050630-GU, dated September 21, 2005, and is hereby incorporated by reference. The FPSC approved the issuance of up to 14,400 shares of common stock for the DSCP during 2009 by Order No. PSC-08-0769-FOF-GU, issued on November 19, 2008. Pursuant to the DSCP, Chesapeake has issued a cumulative 30,211 new shares of common stock as of June 30, 2009. Thus, there remains to be issued 44,789 shares as previously authorized by the Delaware Public Service Commission.

Chesapeake now seeks FPSC authorization to issue up to 14,400 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DSCP during 2010. The 14,400 shares should be adequate to cover any awards granted to non-employee directors of the Company in 2010.

(f) The Board adopted the Employee Stock Awards Plan (ESAP) on February 24, 2005; allowing the Company to grant stock awards to its top performing managers and employees of the year; and to have the flexibility to make other awards of stock to employees for exemplary performance. The ESAP received shareholder approval on May 5, 2005. The maximum number of shares that can be issued from the ESAP in any one year is 5,000. The ESAP expires on December 31, 2015.

On April 26, 2005, the Delaware Public Service Commission issued Order No. 6607 authorizing Chesapeake to issue up to 25,000 shares of common stock to administer the Company's ESAP.

A copy of the Application and Order have been previously filed with the FPSC within Exhibit D, as well as the ESAP document within Exhibit G 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 2006, Docket No. 050630-GU, dated September 21, 2005, and is hereby incorporated by reference. The FPSC approved the issuance of up to 5,000 shares of common stock for the ESAP during 2008 by Order No. PSC-07-0952-FOF-GU, issued on November 29, 2007. Pursuant to the ESAP, Chesapeake has issued a cumulative 1,150 shares of common stock as of June 30, 2009. Thus, there remains to be issued 23,850 shares as previously authorized by the Delaware Public Service Commission. Chesapeake now seeks FPSC authorization to issue up to 5,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's ESAP during 2010. The 5,000 shares should be adequate to cover any awards granted to managers and employees of the Company and its subsidiaries in 2010.

(g) On July 5, 2006, Chesapeake filed a Shelf Registration Statement on Form S-3 with the Securities Exchange Commission to issue up to $40,000,000 in new common stock and/or debt securities over a three-year period. Under the Shelf Registration, the net proceeds from the sale of common stock and/or debt securities would be added to Chesapeake's general corporate funds and used for general corporate purposes including, but not limited to, financing of capital expenditures, repayment of short-term debt, funding share repurchases, financing acquisitions, investing in subsidiaries and general working capital purposes. A copy of the Shelf Registration Statement has been previously filed with the FPSC within 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 2008, Docket No. 070640-GU, dated November 29, 2007, and is hereby incorporated by reference. On November 9, 2006, Chesapeake filed a Prospectus Supplement with the Securities Exchange Commission pursuant to Rule 424(b)(5). The Prospectus Supplement provided financial information about the Company and described the specific terms of the Company's upcoming common stock offering, including the securities the Company would offer, the price of the offered shares, updated number of shares, delivery date of the sold shares, shares outstanding after the issuance, underwriting discounts and commissions as well as proceeds to the Company. A copy of the Prospectus Supplement has been previously filed with the FPSC within Exhibit E 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 2008, Docket No. 070640-GU, dated November 29, 2007, and is hereby incorporated by reference. On November 21, 2006, Chesapeake, pursuant to the Prospectus Supplement completed a public stock offering of 600,300 shares of its common stock at $30.10 per share. The net proceeds of approximately $17,200,000 million from the sale of the 600,300 shares of common stock were used to repay a portion of the Company's short-term debt under its unsecured lines of credit. Short-term debt has been used to temporarily finance the Company's utility expansion projects.

In connection with the stock offering of Chesapeake's 600,300 shares of common stock, Chesapeake, on November 30, 2006, completed the sale of 90,045 additional shares of its common stock at $30.10 per share. The sale of the 90,045 shares of common stock was pursuant to the exercise of the over-allotment option by the underwriters. The net proceeds of approximately $2,600,000 from the sale of the 90,045 over-allotment shares were used to repay a portion of the Company's short-term debt.

On October 16, 2006, the Delaware Public Service Commission issued Order No. 7065 authorizing Chesapeake to issue up to $40,000,000 in common stock and/or debt securities over a three-year financing period under the Shelf Registration Statement. Of the $40,000,000 approved for issuance in common stock and/or debt securities, $20,000,000 was used for the issuance of common stock per the aforementioned November 30, 2006 stock offering, and the remaining $20,000,000 covered a portion of the October 23, 2008 issuance of $30,000,000 in principal unsecured long-term debt pursuant to the transaction described in detail in section 4, Funded Indebtedness, paragraph h(1). As of June 30, 2009, there is a zero (0) balance under the Shelf Registration Statement.

(h) Chesapeake now seeks FPSC approval to issue up to 800,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2009 to permanently finance Chesapeake's ongoing capital expenditure program. Financing for the Company's capital expenditure program is subject to continuous review and modification and is funded from short-term borrowings and cash provided by operating activities. The Company, in an effort to manage its capital structure, may, from time to time permanently finance through the issuance of common stock or an equity-linked instrument, as opposed to long-term debt. The FPSC approved the issuance of 800,000 shares of common stock for Chesapeake during 2009 by Order No. PSC-087-0769-FOF-GU, issued on November 19, 2008.

(i) Chesapeake seeks FPSC authorization to issue during 2010 up to $60,000,000 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 2009 by Order No. PSC-08-0769-FOF-GU, issued November 19, 2008.

(j)Chesapeake seeks further FPSC authorization to issue during 2010 up to an additional 3,828,537 shares of common stock and an additional $60,000,000 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

additional stock and debt would be used to finance Chesapeake's ongoing acquisition program. 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 3,430,421 shares of common stock and $40,000,000 in secured and/or unsecured long-term debt for this purpose during 2009 by Order No. PSC-08-09769-FOF-GU, issued on November 19, 2008.

(k)Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2010 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 was subsequently modified and extended by the Board of Directors on September 12, 2008. Pursuant to the Board's actions, the expiration of the Rights was extended from August 20, 2009 to August 20, 2019 and the Exercise Price was increased per share from $54.56 to 105. 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. A copy of the Company's First Amendment to the Rights Agreement and the Form 8-K filed with the Securities and Exchange Commission in conjunction with the First Amendment to the Rights Agreement has 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 Enter into Agreements For Interest Rate Swap Products, Equity Products and Other Financial Derivatives and to Exceed Limitation Placed on Short-Term Borrowings in 2009, Docket No. 080635-GU, dated November 19, 2008, and are hereby incorporated by reference. As of June 30, 2009, 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 2009 by Order No. PSC-08-0769-FOF-GU, issued on November 19, 2008.

(l) Chesapeake is also requesting authority during 2009 to enter into an agreement for financial derivatives including, but not limited to Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives on such terms as Chesapeake considers appropriate provided that the notional amount(s) for said Interest Rate Swap Products, Equity Products, and/or

other Financial Derivatives do not, in the aggregate, exceed the sum of $40,000,000. 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. While the Company does not consider such Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives 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, Equity Products, and/or other Financial Derivatives subject to its jurisdiction. In the event that the FPSC does not consider Interest Rate Swap Products, Equity Products, and/or other Financial Derivatives to be jurisdictional, Chesapeake requests that that FPSC issue an Order acknowledging the Company's request and confirming the FPSC's absence of jurisdiction regarding these instruments.

A copy of this Order was filed 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 Enter into Agreements for Interest Rate Swap Products, and to Exceed Limitation Placed on Short-Term Borrowings in 2004, Docket No. 030942-GU, and is hereby incorporated by reference.

7. Purposes for which Securities are to be issued:

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, Dividend Reinvestment and Stock Purchase Plan, Directors Stock Compensation Plan,

Employee Stock Awards 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, Equity Products and other Financial Derivatives would provide Chesapeake with an additional opportunity to achieve lower cost funding of existing and prospective debt and equity placements, as well as enhanced flexibility to manage the Company's exposure to risk 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 and Swayze, P.A., 116 West Water Street, Dover, Delaware 19904, who will rely on Beth Keating, Esquire, Akerman Senterfitt, Suite 1200, 106 East College Avenue, 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. 931112-GU, 961194-GU, 981213-GU, 991631-GU, 030942-GU, 050630-GU, 070640-GU, and 080635-GU, respectively, are incorporated in the instant Application by reference:

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: Delaware Public Service Commission Order No. 3425 dated June 23, 1992 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (100,000 shares);

Delaware Public Service Commission Order No. 3425 dated June 23, 1992 for Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Performance Incentive Plan (200,000 shares);

Delaware Public Service Commission Order No. 3071 dated May 23, 1989 for the Issuance of Common Stock pursuant to Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan (200,000 shares);

and

Delaware Public Service Commission Order No. 3040 dated February 14, 1989 authorizing $5,000,000 for Chesapeake Utilities Corporation 8.25% Convertible Debentures.

Docket No. 961194-GU

Exhibit D: Chesapeake Utilities Corporation 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 Dividend Reinvestment and Stock Purchase Plan.

Docket No. 981213-GU

Exhibit C: Chesapeake Utilities Corporation Amended Performance Incentive Plan.

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.

Exhibit E: Delaware Public Service Commission Order No. 5609 dated December 19, 2000 pursuant to Chesapeake Utilities Corporation Retirement Savings Plan (300,000 shares) (as filed with the FPSC Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 29, 2001).

Docket No. 030942-GU

Exhibit C: Delaware Public Service Commission Order No. 6543 dated December 21, 2004 pursuant to Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan (750,000 shares) (as filed with the FPSC 2004 Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 22, 2005).

Exhibit C: Delaware Public Service Commission Order No. 5989 dated July 9, 2002 authorizing the issuance of long-term debt.

Docket No. 050630-GU

Exhibit D: Delaware Public Service Commission Application and Order No. 6607 dated April 26, 2005 for the Issuance of up to 500,000 shares of Chesapeake Utilities Corporation Common Stock for administering Chesapeake Utilities Corporation Performance Incentive Plan, Directors Stock Compensation Plan and Employee Stock Awards Plan.

Exhibit E: A copy of Chesapeake Utilities Corporation Performance Incentive Plan document (400,000 shares).

Exhibit F: A copy of Chesapeake Utilities Corporation Directors Stock Compensation Plan document (75,000 shares).

Exhibit G: A copy of Chesapeake Utilities Corporation's Employee Stock Awards Plan document (25,000 shares).

Docket No. 070640-GU

Exhibit C: Retirement Savings Plan Document filed with the Internal Revenue Service dated January 30, 2007, effective January 1, 2006.

Exhibit D: Chesapeake Utilities Corporation Public Offering of Common Stock as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated July 5, 2006.

Exhibit E: Chesapeake Utilities Corporation Prospectus Supplement as filed with the Securities and Exchange Commission pursuant to Rule 424(b)(5) dated November 9, 2006.

Exhibit F: Delaware Public Service Commission Application and Order No. 7065 dated October 16, 2006 for the issuance of up to $40,000,000 in common stock and/or debt securities over a

three-year financing period pursuant to Chesapeake Utilities Corporation's Shelf Registration Statement.

Docket No. 080635-GU

Exhibit C: Delaware Public Service Commission Application dated September 29, 2008, requesting approval for the issuance of up to $10,000,000 of Chesapeake Utilities Corporation unsecured long-term debt securities.

Delaware Public Service Commission Order No. 7464 dated October 23, 2008, for the Issuance of up to $10,000,000 of Chesapeake Utilities Corporation 5.93% Unsecured Senior Notes (as filed with the FPSC Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 27, 2009).

Exhibit D: Chesapeake Utilities Corporation First Amendment to Rights Agreement and Securities and Exchange Commission Form 8-K pursuant to Chesapeake Utilities Corporation First Amendment to Rights Agreement.

Chesapeake Utilities Corporation Dividend Reinvestment and Direct Stock Purchase Plan as filed with the Securities and Exchange Commission on Registration Statement Form S-3 dated December 16, 2008 (as filed with the FPSC Consummation Report of Securities Issued by Chesapeake Utilities Corporation on March 27, 2009).

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, 2008.

A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.

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

Exhibit C: $30,000,000 Note Agreement for Chesapeake Utilities Corporation 5.93% Unsecured Senior Notes.

Exhibit D: Delaware Public Service Commission Application dated May 18, 2009, requesting approval for the issuance of up to 2.6 million shares of Chesapeake Utilities Corporation common stock in conjunction with the FPU merger.

Exhibit E: Delaware Public Service Commission Order No. 7951 dated June 11, 2009 for the issuance of up to 2.6 million shares of Chesapeake Utilities Corporation common stock in conjunction with the FPU merger.

Exhibit F: Chesapeake Utilities Corporation Joint Proxy Statement/Prospectus as filed with the Securities and Exchange Commission on Registration Statement Form S-4 pursuant to Rule 424(b)(5) dated September 15, 2009.

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 2010 to issue up to 5,000,000 shares of common stock, up to 1,000,000 shares of preferred stock, and up to $120,000,000 of secured and/or unsecured debt, and authorizing it to enter into agreements up to $40,000,000 in Interest Rate Swap Products, Equity Products and other Financial Derivatives, and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $100,000,000 in short-term obligations.

Respectfully submitted,

Date: October 22, 2009

Beth Keating
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Suite 1200
106 East College Avenue
Tallahassee, Florida 32301
(850) 224-9634
(850) 222-0103 (Fax)

Attorneys for
Chesapeake Utilities Corporation

STATE OF DELAWARE *

*

COUNTY OF KENT * SS

BE IT REMEMBERED that on this the day of October 22, 2009, personally appeared before me, a Notary Public for the State of Delaware, Beth W. Cooper, who being by me duly sworn, did depose and say that she is Senior Vice President, Chief Financial Officer, Treasurer and Corporate Secretary 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 her personal knowledge, they are true; and insofar as those facts that are not within her personal knowledge, she believes them to be true, that the exhibits accompanying this Application and attached hereto are true and correct copies of the originals of the aforesaid exhibits, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Beth W. Cooper

Beth W. Cooper
Senior Vice President, Chief Financial Officer,
Treasurer and Corporate Secretary

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

Patricia L. Connors

Notary Public
My Commission Expires: 2/19/13

UNITED STATES
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, 2008 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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ]. No [X].

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ]. No [X].

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]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller Reporting Company [ ]

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ]. No [X].

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2008, the last business day of its most recently completed second fiscal quarter, based on the last trade price on that date, as reported by the New York Stock Exchange, was approximately $168.8 million.

As of February 28, 2009, 6,833,066 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference in Part III.

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2008

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GLOSSARY OF KEY TERMS

Frequently used abbreviations, acronyms, or terms used in this report:

Subsidiaries of Chesapeake Utilities Corporation

BravePoint	BravePoint, Inc., a wholly-owned subsidiary of Chesapeake Services Company, which is a wholly-owned subsidiary of Chesapeake Utilities Corporation
Chesapeake	The Registrant, the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure
Company	The Registrant, the Registrant and its subsidiaries or the Registrant's subsidiaries, as appropriate in the context of the disclosure
ESNG	Eastern Shore Natural Gas Company, a wholly-owned subsidiary of Chesapeake
OnSight	Chesapeake OnSight Services, LLC, a wholly-owned subsidiary of Chesapeake
PESCO	Peninsula Energy Services Company, Inc., a wholly-owned subsidiary of Chesapeake
PIPECO	Peninsula Pipeline Company, Inc., a wholly-owned subsidiary of Chesapeake
Sharp Energy	Sharp Energy, Inc., a wholly-owned subsidiary of Chesapeake Utilities Corporation
Sharpgas	Sharpgas, Inc., a wholly-owned subsidiary of Sharp Energy, Inc.
Skipjack	Skipjack, Inc., a wholly-owned subsidiary of Chesapeake Service Company, which is a wholly-owned subsidiary of Chesapeake Utilities Corporation
Tri-County	Tri-County Gas Co., Inc. a wholly-owned subsidiary of Sharp Energy
Xeron	Xeron, Inc, a wholly-owned subsidiary of Chesapeake

Regulatory Agencies

APB	Accounting Principles Board
Delaware PSC	Delaware Public Service Commission
DOT	United States Department of Transportation
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FDEP	Florida Department of Environmental Protection
Florida PSC	Florida Public Service Commission
IRS	Internal Revenue Service
Maryland PSC	Maryland Public Service Commission
MDE	Maryland Department of Environment
SEC	Securities and Exchange Commission

Other

AOCI	Accumulated Other Comprehensive Income
AS/SVE	Air Sparging and Soil/Vapor Extraction
CGS	Community Gas Systems
Columbia	Columbia Gas Transmission Corporation
DSCP	Directors Stock Compensation Plan
Dts	Dekatherms
E3 Project	ESNG Energylink Expansion Project
ER	Environmental rider
EITF	Financial Accounting Standards Board Emerging Issues Task Force
FIN	Financial Accounting Standards Board Interpretation Number
FSP	Financial Accounting Standards Board Staff Position
GAAP	Generally Accepted Accounting Principles
GSR	Gas sales service rates

Gulf	Columbia Gulf Transmission Company
Gulfstream	Gulfstream Natural Gas System, LLC
HDD	Heating degree-days
MMBtus	One million (1,000,000) British Thermal Units
NYSE	New York Stock Exchange
PIP	Performance Incentive Plan
S&P 500 Index	Standard & Poor's 500
SFAS	Statement of Financial Accounting Standards

Accounting Standards

EITF 03-6-1	EITF 03-6-1, Determining Whether instruments Granted in Share-based Payment Transactions are Participating Securities
EITF 07-05	EITF 07-05, Determining Whether an Instrument (of an Embedded Feature) is Indexed to an Entity's Own Stock
EITF 08-03	EITF 08-03, Accounting for Maintenance Deposits Under Lease Arrangements
EITF 08-05	EITF 08-05, Issuer's Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement
FIN 39-1	FIN 39-1, a modification to FIN 39, Offsetting of Amounts Related to Certain Contracts
FIN 47	FIN 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143
FIN 48	FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS Statement No. 109
FSP APB 14-1	FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlements)
FSP 142-3	FSP 142-3, Determining the Useful Life of Intangible Assets
FSP 157-3	FSP 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active
SFAS No. 71	Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation
SFAS No. 87	Statement of Financial Accounting Standards No. 87, Employers' Accounting for Pensions
SFAS No. 88	Statement of Financial Accounting Standards No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits
SFAS No. 106	Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions.
SFAS No. 109	Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes
SFAS No. 112	Statement of Financial Accounting Standards No. 112, Employers' Accounting for Postemployment Benefits
SFAS No. 115	Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities
SFAS No. 123	Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, Share-Based Payment
SFAS No. 128	Statement of Financial Accounting Standards No. 128, Earnings Per Share
SFAS No. 132R	Statement of Financial Accounting Standards No. 132R, Employers' Disclosures about Pensions and Other Postretirement Benefits
SFAS No. 133	Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities

SFAS No. 141R	Statement of Financial Accounting Standards No. 141R, Business Combinations
SFAS No. 142	Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets
SFAS No. 143	Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations
SFAS No. 157	Statement of Financial Accounting Standards No. 157, Fair Value Measurements
SFAS No. 158	Statement of Financial Accounting Standards No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS Nos. 87, 88, 106, and 132R
SFAS No. 159	Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of SFAS No. 115
SFAS No. 160	Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin 51
SFAS No. 161	Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an Amendment of SFAS No. 133
SFAS No. 162	Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles

PART I

References in this document to "Chesapeake," "the Company," "we," "us" and "our" mean Chesapeake Utilities Corporation and/or its wholly-owned subsidiaries, as appropriate.

Safe Harbor for Forward-Looking Statements

Chesapeake Utilities Corporation has made statements in this Form 10-K that are considered to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not matters of historical fact and are typically identified by words such as, but not limited to, "believes," "expects," "intends," "plans," and similar expressions, or future or conditional verbs such as "may," "will," "should," "would," and "could." These statements relate to matters such as customer growth, changes in revenues or gross margins, capital expenditures, environmental remediation costs, regulatory trends and decisions, market risks, 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. The factors that could cause actual results to differ materially from the Company's expectations include, but are not limited to, those discussed in Item 1A, "Risk Factors."

ITEM 1. BUSINESS.

(a) General

Chesapeake is a diversified utility company engaged directly, or through subsidiaries, in natural gas distribution, transmission and marketing, propane distribution and wholesale marketing, advanced information services and other related businesses. Chesapeake is a Delaware corporation that was formed in 1947.

Chesapeake is composed of four operating segments:

- *Natural Gas.* The natural gas segment includes regulated natural gas distribution and transmission operations and also a non-regulated natural gas marketing operation.
- *Propane.* The propane segment includes non-regulated propane distribution and wholesale marketing operations.
- *Advanced Information Services.* The advanced information services segment provides domestic and international clients with information-technology-related business services and solutions for both enterprise and e-business applications.
- *Other.* The other segment consists primarily of non-regulated operations that own real estate leased to other Company subsidiaries.

(b) Financial Information About Business Segments

Our natural gas segment accounts for approximately 91 percent of Chesapeake's consolidated operating income and approximately 87 percent of the consolidated net property plant and equipment. The following table shows the size of each of our operating segments based on operating income and net property, plant and equipment.

(Thousands)	Operating Income		Net Property, Plant & Equipment	
Natural Gas	$ 25,846	91%	$ 242,882	87%
Propane	1,586	6%	30,180	11%
Advanced information services	695	2%	915	<1%
Other & eliminations	352	1%	6,694	2%
Total	$ 28,479	100%	$ 280,671	100%

Additional financial information by business segment is included in Item 8 under the heading "Notes to Consolidated Financial Statements — Note C."

(c) Narrative Description of the Business

(i)(a) Natural Gas

Chesapeake's natural gas segment provides natural gas distribution, transmission and marketing services for its customers. Chesapeake conducts its natural gas distribution operations under three divisions: Delaware, Maryland, and Florida, which are based in their respective service territories. These three divisions serve approximately 65,190 residential, commercial and industrial customers in central and southern Delaware, Maryland's Eastern Shore and parts of Florida. The Company's natural gas transmission subsidiary, ESNG, operates a 379-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, through its subsidiary, PESCO, also provides natural gas supply and supply management services in the States of Delaware, Florida and Maryland.

Natural Gas Distribution

Chesapeake distributes natural gas to residential, commercial and industrial customers in central and southern Delaware, the Salisbury and Cambridge areas on Maryland's Eastern Shore, and parts of Florida. These activities are conducted through three utility divisions, one in Delaware, another in Maryland and a third in Florida.

Delaware and Maryland. Chesapeake's Delaware and Maryland distribution divisions serve approximately 50,670 customers, of which approximately 50,490 are residential and commercial customers purchasing gas primarily for heating and cooking use. The remaining 180 customers are industrial. For the year 2008, operating revenues and deliveries by customer class were as follow:

		Operating Revenues (Thousands)		Deliveries (MMcf's)	
Residential	$	47,994	53%	2,590,425	39%
Commercial		29,480	33%	2,312,644	34%
Industrial		2,130	2%	812,224	12%
Subtotal		79,604	88%	5,715,293	85%
Interruptible		9,041	10%	1,035,540	15%
Other[1]		1,934	2%	-	-
Total	$	90,579	100%	6,750,833	100%

[1] Operating revenues from "Other" sources include unbilled revenue, rental of gas properties, and other miscellaneous charges.

Florida. The Florida division distributes natural gas to approximately 13,370 residential and 1,150 commercial and industrial customers in the 14 Counties of Polk, Osceola, Hillsborough, Gadsden, Gilchrist, Union, Holmes, Jackson, Desoto, Pasco, Suwannee, Liberty, Washington and Citrus. For the year 2008, operating revenues and deliveries by customer class were as follow:

	Operating Revenues (Thousands)		Deliveries (MMcf's)	
Residential	$ 3,725	28%	321,077	2%
Commercial	3,108	24%	1,180,507	7%
Industrial	4,684	36%	14,527,786	91%
Other [1]	1,637	12%	-	0%
Total	$ 13,154	100%	16,029,370	100%

[1] Operating revenues from "Other" sources include unbilled revenue, conservation revenue, fees for billing services provided to third-parties, and other miscellaneous charges.

Natural Gas Transmission

ESNG owns and operates an interstate natural gas pipeline and provides open-access transportation services for affiliated and non-affiliated local distribution companies and other customers through an integrated gas pipeline system extending from southeastern Pennsylvania through Delaware to its terminus on the Eastern Shore of Maryland. ESNG also provides swing transportation service and contract storage services. For the year 2008, operating revenues and deliveries by customer class were as follow:

	Operating Revenues (Thousands)		Deliveries (MMcf's)	
Local distribution companies	$ 19,280	81%	9,720,864	44%
Industrial	3,523	15%	11,191,555	50%
Commercial	968	4%	1,299,878	6%
Other [1]	5	<1%	-	-
Subtotal	23,776	100%	22,212,297	100%
Less: affiliated local distribution companies	11,521	48%	5,978,996	27%
Total non-affiliated	$ 12,255	52%	16,233,301	73%

[1] Operating revenues from "Other" sources is from rental of gas properties.

During 2005, Chesapeake formed PIPECO to provide industrial customers in the State of Florida natural gas transportation service as an intrastate pipeline. PIPECO did not have any activity in 2006. On December 4, 2007, the Florida Public Service Commission ("Florida PSC") approved PIPECO's natural gas transmission pipeline tariff, which established its operating rules and regulations. PIPECO began marketing its services to potential industrial customers in 2008.

Natural Gas Marketing

PESCO competes with regulated utilities and other unregulated third-party marketers to sell natural gas supplies directly to commercial and industrial customers in the States of Delaware, Maryland, and Florida through competitively-priced contracts. PESCO does not own or operate any natural gas transmission or distribution assets. The gas that PESCO sells is delivered to retail customers through affiliated and non-affiliated local distribution company systems and transmission pipelines. PESCO bills its customers through the billing services of the regulated utilities that deliver the gas, or directly, through its own billing capabilities.

For the year 2008, PESCO's customers, operating revenues and deliveries were as follow:

State	Customers		Operating Revenues (Thousands)		Deliveries (Dt's)	
Florida	1,922	99%	$ 76,862	81%	6,275,717	79%
Delmarva	12	1%	18,552	19%	1,683,695	21%
Total	1,934	100%	$ 95,414	100%	7,959,412	100%

Gas Supplies, Firm Transportation and Storage Capacity

The Company believes that the availability of gas supply and transportation to its Delaware, Maryland and Florida natural gas distribution operations and to ESNG and PESCO is adequate under existing arrangements to meet the anticipated needs of their customers. The following discussion provides a summary of the gas supplies and pipeline transportation and storage capacities, stated in dekatherms ("Dts"), available to each of the Company's natural gas operations.

The Company's Delaware and Maryland natural gas distribution divisions have both firm and interruptible transportation service contracts with four interstate "open access" pipelines, including ESNG. These divisions are directly interconnected with ESNG, and have contracts with interstate pipelines upstream of ESNG. These interstate pipelines include Transcontinental Gas Pipe Line Corporation ("Transco"), Columbia Gas Transmission Corporation ("Columbia") and Columbia Gulf Transmission Company ("Gulf"). Transco and Columbia are directly interconnected with ESNG; Gulf is directly interconnected with Columbia and indirectly interconnected with ESNG. None of the upstream pipelines is an affiliate of the Company. 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 supplies on the spot market from various suppliers. This gas is transported by the upstream pipelines and delivered to their interconnections with ESNG. The divisions also have the capability to use propane-air peak-shaving to supplement or displace the spot market purchases.

Delaware.

The following table shows the firm transportation and storage capacity that the Delaware division currently has under contract with ESNG and pipelines upstream of ESNG, including the respective contract expiration dates.

Pipeline	Firm transportation capacity maximum peak-day daily deliverability (Dts)	Firm storage capacity maximum peak-day daily withdrawal (Dts)	Expiration
Transco	21,356	6,407	Various dates between 2012 and 2028
Columbia	3,460	8,224	Various dates between 2009 and 2020
Gulf	880	-	Expires in 2009
Eastern Shore	61,637	4,146	Various dates between 2009 and 2023

The Delaware division currently has contracts with several suppliers for the purchase of firm natural gas supply in the amount of its capacity on the Transco and Columbia pipelines. The Delaware division also has contracts for firm peaking gas supplies to be delivered to its system in order to meet the differential between the Delaware division's capacity on ESNG and capacity on pipelines upstream of ESNG. These supply contracts provide a maximum firm daily entitlement of 51,066 Dts, delivered on the Transco, Columbia, and/or Gulf systems to ESNG for redelivery to the division under firm transportation contracts. These gas supply contracts have various expiration dates, and quantities may vary from day-to-day and month-to-month.

Maryland.

The following table shows the firm transportation and storage capacity that the Maryland division currently has under contract with ESNG and pipelines upstream of ESNG, including the respective contract expiration dates.

Pipeline	Firm transportation capacity maximum peak-day daily deliverability (Dts)	Firm storage capacity maximum peak-day daily withdrawal (Dts)	Expiration
Trancso	5,866	2,456	Various dates between 2012 and 2013
Columbia	1,700	3,663	Various dates between 2014 and 2018
Gulf	590	-	Expires in 2009
Eastern Shore	20,528	2,306	Various dates between 2009 and 2023

The Maryland division currently has contracts with several suppliers for the purchase of firm natural gas supply in the amount of its capacity on the Transco and Columbia pipelines. The Maryland division also has contracts for firm peaking gas supplies to be delivered to its system in order to meet the differential between the Maryland division's capacity on ESNG and capacity on pipelines upstream of ESNG. These supply contracts provide a maximum firm daily entitlement of 16,316 Dts, delivered on the Transco, Columbia, and/or Gulf systems to ESNG for redelivery to the division under firm transportation contracts. These gas supply contracts have various expiration dates, and quantities may vary from day-to-day and month-to-month.

Florida.

The Florida natural gas distribution division has firm transportation service contracts with Florida Gas Transmission Company and Gulfstream Natural Gas System, LLC. Pursuant to a program approved by the Florida PSC, all of the capacity under these agreements has been released to various third parties, including PESCO. Under the terms of these capacity release agreements, Chesapeake is contingently liable to Florida Gas Transmission Company and Gulfstream Natural Gas System, LLC. should any party that acquired the capacity through release fail to pay for the service.

Chesapeake's contracts with Florida Gas Transmission Company include: (a) a contract, which expires in 2010, for daily firm transportation capacity of 23,519 Dts for the months of November through April, capacity of 20,123 Dts for the months of May through September, and capacity of 22,105 Dts for October; and (b) a contract for daily firm transportation capacity of 1,000 Dts daily, which expires in 2015. Chesapeake's contract with Gulfstream Natural Gas System, LLC. is for daily firm transportation capacity of 10,000 Dts and expires in 2022.

ESNG.

ESNG has three contracts with Transco for a total of 7,292 Dts of firm peak day storage entitlements and total storage capacity of 288,003 Dts, which expire in 2013. ESNG has retained these firm storage services in order to provide swing transportation service and firm storage service to those customers that have requested such service.

PESCO.

PESCO currently has contracts with ConocoPhillips, British Petroleum Company, and Eagle Energy Partners, LLP for the purchase of firm natural gas supplies. The ConocoPhillips contract, which provides a maximum firm daily entitlement of 15,000 MMBtus, the British Petroleum Company contract, which provides a maximum firm daily entitlement of 10,000 MMBtus, and the Eagles Energy Partners, LLP contract, which provides for a maximum firm daily entitlement of 10,000 MMBtus expire in May 2009. PESCO is currently in the process of obtaining and reviewing supply proposals from suppliers and anticipates executing agreements prior to the expiration of the existing contracts.

Competition

See discussion of competition in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Competition."

Rates and Regulation

Chesapeake's natural gas distribution divisions are subject to regulation by the Delaware, Maryland and Florida PSCs with respect to various aspects of their business, including the rates for sales and transportation to all customers in each respective jurisdiction. All of Chesapeake's firm distribution sales rates are subject to gas cost recovery mechanisms, which match revenues with gas supply and transportation costs and normally allow full recovery of such costs. Adjustments under these mechanisms, which are limited to such costs, require periodic filings and hearings with the state regulatory authority having jurisdiction.

ESNG is subject to regulation as an interstate pipeline by the Federal Energy Regulatory Commission ("FERC"), which regulates the terms and conditions of service and the rates ESNG can charge for its transportation and storage services.

Management monitors the achieved rates of return of its distribution divisions and ESNG in order to ensure timely filing of rate cases.

Regulatory Proceedings

See discussion of regulatory activities in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Regulatory Activities."

Seasonality of Natural Gas Revenues

Revenues from the Company's residential and commercial natural gas distribution activities are affected by seasonal variations in weather conditions, which directly influence the volume of natural gas sold and delivered. Specifically, customer demand substantially increases during the winter months, when natural gas is used for heating. Accordingly, the volumes sold for this purpose are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to result in reduced use of natural gas, while sustained colder-than-normal temperatures will tend to result in greater use. The Company measures the relative impact of weather by using an accepted degree-day methodology. Degree-day data is used to estimate amounts of energy required to maintain comfortable indoor temperature levels based on each day's average temperature. A degree-day is the measure of the variation in the weather based on the extent to which the average daily temperature (from 10:00 am to 10:00 am) falls below 65 degrees Fahrenheit. Each degree of temperature below 65 degrees Fahrenheit is counted as one heating degree-day. Normal heating degree-days are based on the most recent 10-year average.

In efforts to stabilize the level of net revenues collected from customers, the Company received approval from the Maryland Public Service Commission ("Maryland PSC") on September 26, 2006 to implement a weather normalization adjustment for its residential heating and smaller commercial heating customers. A weather normalization adjustment is a billing adjustment mechanism that is designed to eliminate the effect of deviations from average seasonal temperatures on utility net revenues.

(i)(b) Propane

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 pressure, 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 fossil fuels. Propane is sold primarily in suburban and rural areas, which are not served by natural gas distributors.

Chesapeake's retail propane distribution group consists of: (1) Sharp Energy, Inc., (2) Sharpgas, Inc., and (3) Tri-County Gas Co., Inc. The propane wholesale marketing operation consists of Xeron, Inc.

Propane Distribution.

During 2008, our propane distribution operations served approximately 35,170 customers throughout Delaware, the Eastern Shore of Maryland and Virginia, southeastern Pennsylvania and parts of Florida and delivered approximately 27.9 million retail and wholesale gallons of propane. The propane distribution business is affected by many factors, such as seasonality, the absence of price regulation, and competition among local providers.

For the year 2008, operating revenues, total gallons sold and number of customers for our Delmarva and Florida propane distribution operations were as follow:

	Operating Revenues (Thousands)		Total Gallons Sold (Thousands)		Average No. of Customers	
Delmarva	$ 59,173	95%	26,765	96%	32,889	94%
Florida	3,412	5%	1,182	4%	2,280	6%
Total	$ 62,585	100%	27,947	100%	35,169	100%

The Company's propane distribution operations purchase propane primarily from suppliers, including major oil companies, independent producers of natural gas liquids and from Xeron. Supplies of propane from these and other sources are readily available for purchase by the Company.

The Company's propane distribution operations use trucks and railroad cars to transport propane from refineries, natural gas processing plants or pipeline terminals to its bulk storage facilities. The Company's Delmarva-based propane distribution operation owns bulk propane storage facilities with an aggregate capacity of approximately 2.4 million gallons at 42 plant facilities in Delaware, Maryland, Pennsylvania and Virginia, located on real estate that is either owned or leased. The Company's Florida-based propane distribution operation owns three bulk propane storage facilities with a total capacity of 66,000 gallons. From these storage facilities, propane is delivered primarily by "bobtail" trucks, owned and operated by the Company, to tanks located at the customers' premises.

Propane Wholesale Marketing.

In May 1998, Chesapeake acquired Xeron, a natural gas liquids trading company located in Houston, Texas. Xeron markets propane to large, independent petrochemical companies, resellers and retail propane companies in the southeastern United States. For 2008, Xeron had operating revenues totaling approximately $3.3 million. The propane wholesale marketing business is affected by wholesale price volatility and supply levels. Additional information on Xeron's trading and wholesale marketing activities, market risks and the controls that limit and monitor Xeron's risks is included in Item 7 under the heading "Management's Discussion and Analysis — Market Risk."

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

See discussion of competition in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Competition."

Rates and Regulation

The propane distribution and wholesale 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 by the Federal Motor Carrier Safety Administration within the United States Department of Transportation ("DOT") 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 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 $35 million, but there is no assurance that such insurance will be adequate to cover all potential liabilities.

Seasonality of Propane Revenues

Revenues from the Company's propane distribution sales activities are affected by seasonal variations in weather conditions. Weather conditions directly influence the volume of propane sold and delivered to customers; specifically, customers' demand substantially increases during the winter months when propane is used for heating. Accordingly, the propane volumes sold for this purpose are directly affected by the severity of winter weather and can vary substantially from year to year. Sustained warmer-than-normal temperatures will tend to result in reduced propane use, while sustained colder-than-normal temperatures will tend to result in greater use.

(i)(c) Advanced Information Services

Chesapeake's advanced information services segment consists of BravePoint, Inc. headquartered in Norcross, Georgia, which provides domestic and international clients with information-technology-related business services and solutions for both enterprise and e-business applications.

Competition

See discussion of competition in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Competition."

(i)(d) Other Subsidiaries

Skipjack and Eastern Shore Real Estate, Inc. own and lease office buildings in Delaware and Maryland to affiliates of Chesapeake. Chesapeake Investment Company is an affiliated investment company registered in Delaware. During the quarter ended September 30, 2007, Chesapeake decided to close its distributed energy services subsidiary, OnSight.

(ii) Capital Budget

A discussion of capital expenditures by business segment and capital expenditures for environmental remediation facilities is included in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources."

(iii) Employees

As of December 31, 2008, Chesapeake had 448 employees, including 180 in natural gas, 132 in propane and 93 in advanced information services. The remaining 43 employees are considered general and administrative and include officers of the Company, treasury, accounting, internal audit, information technology, human resources and other administrative personnel.

(iv) Financial Information about Geographic Areas

All of the Company's material operations, customers, and assets occur and are located in the United States.

(d) Available Information

As a public company, Chesapeake files annual, quarterly and other reports, as well as its annual proxy statement and other information, with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials that the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549-5546; the public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The SEC also maintains an Internet site that contains reports, proxy and information statements and other information regarding the Company. The address of the SEC's Internet website is www.sec.gov. Chesapeake makes available, free of charge, on the Company's Internet website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The address of Chesapeake's Internet website is www.chpk.com. The content of this website is not part of this report.

Chesapeake has a Business Code of Ethics and Conduct applicable to all employees, officers and directors and a Code of Ethics for Financial Officers. Copies of the Business Code of Ethics and Conduct and the Financial Officer Code of Ethics are available on our internet website. Chesapeake also adopted Corporate Governance Guidelines and Charters for the Audit Committee, Compensation Committee, and Corporate Governance Committee of the Board of Directors, each of which satisfies the regulatory requirements established by the SEC and the New York Stock Exchange ("NYSE"). The Board of Directors has also adopted Corporate Governance Guidelines on Director Independence, which conform to the NYSE listing standards on director independence. Each of these documents also is available on Chesapeake's Internet website or may be obtained by writing to: Corporate Secretary; c/o Chesapeake Utilities Corporation; 909 Silver Lake Blvd.; Dover, DE 19904.

If Chesapeake makes any amendment to, or grants a waiver of, any provision of the Business Code of Ethics and Conduct or the Code of Ethics for Financial Officers applicable to its principal executive officer, principal financial officer, principal accounting officer or controller, the amendment or waiver will be disclosed within five business days on the Company's Internet website.

Our Chief Executive Officer certified to the NYSE on May 20, 2008 that, as of that date, he was unaware of any violation by Chesapeake Utilities Corporation of the NYSE's corporate governance listing standards.

ITEM 1A. RISK FACTORS.

The following is a discussion of the primary financial, operational, regulatory and legal, and environmental risk factors that may affect the operations and/or financial performance of the regulated and unregulated businesses of Chesapeake. Refer to the section entitled *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* under Item 7 of this report for an additional discussion of these and other related factors that affect the Company's operations and/or financial performance.

Financial Risks

Instability and volatility in the financial markets could have a negative impact on our growth strategy.
Our business strategy includes the continued pursuit of growth, both organically and through acquisitions. To the extent that we do not generate sufficient cash from operations, we may incur additional indebtedness to finance our growth. The turmoil experienced in the credit markets during 2008 and its potential impact on the liquidity of major financial institutions may have an adverse effect on our customers and our ability to fund our business strategy through borrowings, under either existing or newly created arrangements in the public or private markets on terms we believe to be reasonable. Specifically, we rely on access to both short-term and longer-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from our operations. Currently, $45 million of the total $100 million of short-term lines of credit utilized to satisfy our short-term financing requirements are discretionary, uncommitted lines of credit. We utilize discretionary lines of credit to reduce the cost associated with these short-term financing requirements. We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. However, if we are not able to access capital at competitive rates, our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth may be limited.

Current levels of market volatility are unprecedented.
The capital and credit markets have been experiencing extreme volatility and disruption for more than twelve months. The volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. There is no assurance that recent government intervention to help stabilize credit markets and financial institutions and restore liquidity will have beneficial effects in the credit markets, will address credit or liquidity issues of companies that participate in the programs or will reduce volatility or uncertainty in the financial markets. If current levels of market disruption and volatility continue or worsen, we would seek to meet our liquidity needs by drawing upon contractually committed lending agreements primarily provided by banks and/or by seeking other funding sources. Under such extreme market conditions, however, there can be no assurance that such agreements and other funding sources would be available or sufficient.

Difficult conditions in the financial services markets have materially and adversely affected the business and results of operations of many financial institutions, and we do not know when and if these conditions may improve in the near future.
Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially representing mortgage-backed securities but more recently including credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

The unsoundness of financial institutions could adversely affect the Company.
The Company has exposure to different industries and counterparties, and may periodically execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks and other institutional clients. These transactions may expose the Company to credit risk in the event of default of a counterparty or client. There can be no assurance that any such losses or impairments would not materially and adversely affect the Company's business and results of operations.

A downgrade in our credit rating could adversely affect our access to capital markets.
Our ability to obtain adequate and cost-effective capital depends on our credit ratings, which are greatly affected by our financial performance and the liquidity of financial markets. A downgrade in our current credit ratings could adversely affect our access to capital markets, as well as our cost of capital.

Debt covenant obligations, if triggered, may affect our financial condition.
Our long-term debt obligations and committed short-term lines of credit contain financial covenants related to debt-to-capital ratios and interest-coverage ratios. Failure to comply with any of these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations or the inability to borrow under certain credit agreements. Any such acceleration would cause a material adverse change in Chesapeake's financial condition.

The continuation of recent economic conditions could adversely affect our customers and negatively impact our financial results.
The slowdown in the U.S. economy, together with increased unemployment, mortgage and other credit defaults and significant decreases in the values of homes and investment assets, have adversely affected the financial resources of many domestic households. It is unclear whether governmental responses to these conditions will be successful in lessening the severity or duration of the current recession. As a result, our customers may use less gas or propane and/or it may become more difficult for them to pay their gas or propane bills. This may slow collections and lead to higher than

normal levels of accounts receivable, which in turn, could increase our financing requirements and result in higher bad debt expense.

Further changes in economic conditions and interest rates may adversely affect our results of operations and cash flows.

A continued downturn in the economies of the regions in which we operate might adversely affect our ability to increase our customer base and cash flows at historical rates. Further, an increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates we charge our utility customers, could adversely affect future earnings. An increase in short-term interest rates would negatively affect our results of operations, which depend on short-term lines of credit to finance accounts receivable and storage gas inventories, and to temporarily finance capital expenditures.

Inflation may impact our results of operations, cash flows and financial position.

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on our capital investments and returns, we seek rate relief from regulatory commissions for regulated operations and closely monitor the returns of our unregulated business operations. There can be no assurance that we will be able to obtain adequate and timely rate relief to offset the effects of inflation. To compensate for fluctuations in propane gas prices, we adjust our propane selling prices to the extent allowed by the market. There can be no assurance, however, that we will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas to us.

Current market conditions have had a negative impact on the return on plan assets for our pension plan, which may require additional funding and negatively affect our cash flows.

We have a pension plan that has been closed to new employees since January 1, 1999. The costs of providing benefits and related funding requirements of this plan are subject to changes in the market value of the assets that fund the plan. As a result of the extreme volatility and disruption in the domestic and international equity and bond markets, our pension plan experienced a decline of $4.3 million in its asset values during the year. The funded status of the plan and the related costs reflected in our financial statements are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Under the Pension Protection Act of 2006, continued losses of asset values may necessitate accelerated funding of the plan in the future to meet minimum federal government requirements. Continued downward pressure on the asset values of the plan may require us to fund obligations earlier than it had originally planned, which would have a negative impact on our cash flows from operations, decrease borrowing capacity and increase interest expense.

Our operations are exposed to market risks, beyond our control, which could adversely affect our financial results and capital requirements.

Our PESCO and Xeron operations are subject to market risks beyond our control, including market liquidity and commodity price volatility. Although we maintain a risk management policy, we may not be able to offset completely the price risk associated with volatile commodity prices, which could lead to volatility in our earnings. Physical trading also has price risk on any net open positions at the end of each trading day, as well as volatility resulting from: (i) intra-day fluctuations of gas and/or propane prices, and (ii) daily price movements between the time natural gas and/or propane is purchased or sold for future delivery and the time the related purchase or sale is hedged. The determination of our net open position at the end of any trading day requires us to make assumptions as to future circumstances, including the use of gas and/or propane by our customers in relation to our anticipated market positions. Because the price risk associated with any net open position at the end of such day may increase if the assumptions are not realized, we review these assumptions daily. Net open positions may increase volatility in our financial condition or results of operations if market prices move in a significantly favorable or unfavorable manner, because the timing of the recognition of profits or losses on the hedges for financial accounting purposes usually does not match up with the timing of the economic profits or losses on the item being hedged. This volatility may occur, with a resulting increase or decrease in earnings or losses, even though the expected profit margin is essentially unchanged from the date the transactions were consummated.

Operational Risks

Fluctuations in weather may adversely affect our results of operations, cash flows and financial condition.
Our natural gas and propane distribution operations are sensitive to fluctuations in weather conditions, which directly influence the volume of natural gas and propane sold and delivered. A significant portion of our natural gas and propane distribution revenues is derived from the sales and deliveries of natural gas and propane to residential and commercial heating customers during the five-month peak heating season (November through March). If the weather is warmer than normal, we sell and deliver less natural gas and propane to customers, and earn less revenue. In addition, hurricanes or other extreme weather conditions could damage production or transportation facilities, which could result in decreased supplies of natural gas and propane, increased supply costs and higher prices for customers.

The amount and availability of natural gas and propane supplies are difficult to predict; a substantial reduction in available supplies could reduce our earnings in those segments.
Natural gas and propane production can be affected by factors beyond our control, such as weather and refinery closings. If we are unable to obtain sufficient natural gas and propane supplies to meet demand, results in those segments may be adversely affected.

We rely on having access to interstate natural gas pipelines' transportation and storage capacity; a substantial disruption or lack of growth in these services may impair our ability to meet customers' existing and future requirements.
In order to meet existing and future customer demands for natural gas, we must acquire both sufficient natural gas supplies and interstate pipeline and storage capacity to serve such requirements. We must contract for reliable and adequate delivery capacity for our distribution systems while considering the dynamics of the interstate pipeline and storage capacity market, our own on-system resources, as well as the characteristics of our markets. Chesapeake, along with other local natural gas distribution companies and other participants in the industry, has voiced concern regarding the future availability of additional upstream interstate pipeline and storage capacity. This is a business issue which we must continue to manage as our customer base grows.

Natural gas and propane commodity price changes may affect the operating costs and competitive positions of our natural gas and propane distribution operations, which may adversely affect our results of operations, cash flows and financial condition.
Natural Gas. Higher natural gas prices can significantly increase the cost of gas billed to our customers. Such cost increases generally have no immediate effect on our revenues and net income because of our regulated gas recovery mechanisms. Our net income, however, may be reduced by higher expenses that we may incur for uncollectible customer accounts and by lower volumes of natural gas deliveries when customers reduce their consumption. Therefore, increases in the price of natural gas can affect our operating cash flows and the competitiveness of natural gas as an energy source.

Propane. Propane costs are subject to volatile changes as a result of product supply or other market conditions, including economic and political factors affecting crude oil and natural gas supply or pricing. Such cost changes can occur rapidly and can affect profitability. There is no assurance that we will be able to pass on propane cost increases fully or immediately, particularly when propane costs increase rapidly. Therefore, average retail sales prices can vary significantly from year-to-year as product costs fluctuate in response to propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, declines in retail sales volumes due to reduced consumption and increased amounts of uncollectible accounts may adversely affect net income.

Our propane inventory is subject to inventory risk, which may adversely affect our results of operations and financial condition.
The Company's propane distribution operations own bulk propane storage facilities, with an aggregate capacity of approximately 2.5 million gallons. We purchase and store propane based on several factors, including inventory levels and the price outlook. We may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and, as such, its unit price is

subject to volatile fluctuations in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the unit price of the propane that we purchase can change rapidly over a short period of time. The market price for propane could fall below the price at which we made the purchases, which would adversely affect our profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs as required by Generally Accepted Accounting Principles ("GAAP") if the market price of propane falls below our weighted average cost of inventory, and therefore, could adversely affect net income.

Operating events affecting public safety and the reliability of Chesapeake's natural gas distribution system could adversely affect the results of operations, financial condition and cash flows.

Chesapeake's business is exposed to operational events, such as major leaks, mechanical problems and accidents, that could affect the public safety and reliability of its natural gas distribution systems, significantly increase costs and cause loss of customer confidence. The occurrence of any such operational events could adversely affect the results of operations, financial condition and cash flows. If Chesapeake is unable to recover from customers, through the regulatory process, all or some of these costs and its authorized rate of return on these costs, this also could adversely affect the results of operations, financial condition and cash flows.

Because we operate in a competitive environment, we may lose customers to competitors.

PESCO competes with third-party suppliers to sell gas to commercial and industrial customers. In our gas transportation and distribution operations, our competitors include interstate pipelines, when our transmission and/or distribution customers are located close enough to a competing pipeline to make direct connections economically feasible.

Our propane distribution operations compete with several other propane distributors, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Some of our competitors have significantly greater resources. The retail propane industry is mature, and we foresee modest growth in total demand. Given this limited growth, we expect that year-to-year industry volumes will be principally affected by weather patterns. Therefore, our ability to grow the propane distribution business is contingent upon continued execution of our community gas systems strategy to capture additional market share, successful penetration of new service territories, and successful utilization of pricing programs that retain and grow our customer base. Failure to retain and grow our customer base would have an adverse effect on our results.

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

BravePoint faces significant competition from a number of larger competitors having substantially greater resources available to them to compete on the basis of technological expertise, reputation and price.

Changes in technology may adversely affect our advanced information services segment's results of operations, cash flows and financial condition.

BravePoint participates in a market that is characterized by rapidly changing technology and accelerating product introduction cycles. The success of our advanced information services segment depends upon our ability to address the rapidly changing needs of our customers by developing and supplying high-quality, cost-effective products, product enhancements and services, on a timely basis, and by keeping pace with technological developments and emerging industry standards. There is no assurance that we will be able to keep up with technological advancements necessary to keep our products and services competitive.

Our energy marketing subsidiaries have credit risk and credit requirements that may adversely affect our results of operations, cash flows and financial condition.

Xeron and PESCO extend credit to counter-parties. While we believe Xeron and PESCO utilize prudent credit policies, each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counter-party to such a transaction fails to perform, and any underlying collateral is inadequate, we could experience financial losses.

Xeron and PESCO are also dependent upon the availability of credit to buy propane and natural gas for resale or to trade. If financial market conditions decline generally, or the financial condition of these subsidiaries or of the Company, declines, then the cost of credit available to these subsidiaries could increase. If credit is not available, or if credit is more costly, our results of operations, cash flows and financial condition may be adversely affected.

Our use of derivative instruments may adversely affect our results of operations.
Fluctuating commodity prices may affect our earnings and financing costs because our propane distribution and wholesale marketing segments use derivative instruments, including forwards, swaps and puts, to hedge price risk. In addition, we have utilized in the past, and may decide, after further evaluation, to continue to utilize derivative instruments to hedge price risk for our Delaware and Maryland natural gas distribution divisions, as well as PESCO. While we have a risk management policy and operating procedures in place to control our exposure to risk, if we purchase derivative instruments that are not properly matched to our exposure, our results of operations, cash flows, and financial conditions may be adversely affected.

Changes in customer growth may affect earnings and cash flows.
Chesapeake's ability to increase gross margins in its regulated and propane businesses is dependent upon the residential construction market, adding new commercial and industrial customers and conversion of customers to natural gas or propane from other fuel sources. Slowdowns in these markets could adversely affect the Company's gross margin in its regulated or propane businesses, its earnings and cash flows.

Chesapeake's businesses are capital intensive, and the costs of capital projects may be significant.
Chesapeake's businesses are capital intensive and require significant investments in internal infrastructure projects. Our results of operations and financial condition could be adversely affected if we are unable to manage such capital projects effectively or if we do not receive full recovery of such capital costs in future regulatory proceedings.

Chesapeake's facilities and operations could be targets of acts of terrorism.
Chesapeake's natural gas distribution, natural gas transmission and propane storage facilities may be targets of terrorist activities that could result in a disruption of our ability to meet customer requirements. Terrorist attacks may also disrupt capital markets and Chesapeake's ability to raise capital. A terrorist attack on Chesapeake's facilities, or those of its suppliers or customers, could result in a significant decrease in revenues or a significant increase in repair costs, which could adversely affect our results of operations, financial position and cash flows.

The risk of terrorism and political unrest and the current hostilities in the Middle East may adversely affect the economy and the price and availability of propane, refined fuels and natural gas.
Terrorist attacks, political unrest and the current hostilities in the Middle East may adversely affect the price and availability of propane, refined fuels and natural gas, as well as our results of operations, our ability to raise capital and our future growth. The impact that the foregoing may have on our industry in general, and on us in particular, is not known at this time. An act of terror could result in disruptions of crude oil or natural gas supplies and markets (the sources of propane), and our infrastructure facilities could be direct or indirect targets. Terrorist activity may also hinder our ability to transport propane and natural gas if our means of supply transportation, such as rail or pipeline, become damaged as a result of an attack. A lower level of economic activity could result in a decline in energy consumption, which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism could also affect our ability to raise capital. Terrorist activity and hostilities in the Middle East could likely lead to increased volatility in prices for propane, refined fuels and natural gas. We maintain insurance policies with insurers in such amounts and with such coverage and deductibles as we believe are reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Operational interruptions to our gas transmission and distribution activities, caused by accidents, malfunctions, severe weather (such as a major hurricane), a pandemic or acts of terrorism, could adversely impact earnings.

Inherent in our gas transmission and distribution activities are a variety of hazards and operational risks, such as leaks, ruptures and mechanical problems. If they are severe enough or if they lead to operational interruptions, they could cause substantial financial losses. In addition, these risks could result in loss of human life, significant damage to property, environmental damage, impairment of our operations and substantial loss to us. The location of pipeline and storage facilities near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering places, could increase the level of damages resulting from these risks. The occurrence of any of these events could adversely affect our financial position, results of operations and cash flows.

Unionization campaigns could adversely affect our results of operations.
The Company may become a target of unionization campaigns. Unions may attempt to pressure Chesapeake's employees to choose union representation. Such campaigns could be materially disruptive to our business and could have an adverse effect on our results of operations.

Regulatory and Legal Risks

Regulation of the Company, including changes in the regulatory environment, may adversely affect our results of operations, cash flows and financial condition.
The Delaware, Maryland and Florida PSCs regulate our natural gas distribution operations in those States; ESNG is regulated by the FERC. These commissions set the rates that we can charge customers for services subject to their regulatory jurisdiction. Our ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that our regulated operations will be able to obtain such approvals or maintain currently authorized rates of return.

We are dependent upon construction of new facilities to support future growth in earnings in our natural gas distribution and interstate pipeline operations.
Construction of new facilities required to support future growth is subject to various regulatory and developmental risks, including but not limited to: (a) our ability to obtain necessary approvals and permits by regulatory agencies on a timely basis and on terms that are acceptable to us; (b) potential changes in federal, state and local statutes and regulations, including environmental requirements, that prevent a project from proceeding or increase the anticipated cost of the project; (c) inability to acquire rights-of-way or land rights on a timely basis on terms that are acceptable to us; (d) lack of anticipated future growth in available natural gas supply; and (e) insufficient customer throughput commitments.

We are subject to operating and litigation risks that may not be fully covered by insurance.
Our operations are subject to the operating hazards and risks normally incidental to handling, storing, transporting and delivering natural gas and propane to end users. As a result, we are sometimes a defendant in legal proceedings arising in the ordinary course of business. We maintain insurance policies with insurers in such amounts and with such coverages and deductibles as we believe are reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Environmental Risks

Costs of compliance with environmental laws may be significant.
We are subject to federal, state and local laws and regulations governing environmental quality and pollution control. These evolving laws and regulations may require expenditures over a long period of time to control environmental effects at current and former operating sites, including former manufactured gas plant sites that we have acquired from third parties. Compliance with these legal obligations requires us to commit capital. If we fail to comply with environmental laws and regulations, even if such failure is caused by factors beyond our control, we may be assessed civil or criminal penalties and fines.

To date, we have been able to recover, through regulatory rate mechanisms, the costs associated with the remediation of former manufactured gas plant sites. However, there is no guarantee that we will be able to recover future remediation costs in the same manner or at all. A change in our approved rate mechanisms for recovery of environmental remediation costs at former manufactured gas plant sites could adversely affect our results of operations, cash flows and financial condition.

Further, existing environmental laws and regulations may be revised, or new laws and regulations seeking to protect the environment may be adopted and be applicable to us. Revised or additional laws and regulations could result in additional operating restrictions on our facilities or increased compliance costs, which may not be fully recoverable.

We may be exposed to certain regulatory and financial risks related to climate change.
Climate change is receiving ever increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which our climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

There are a number of legislative and regulatory proposals to address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs, including potential new regulations, additional charges to fund energy efficiency activities, or other regulatory actions. These actions could:

- result in increased costs associated with our operations;
- increase other costs to our business;
- affect the demand for natural gas and propane; and
- impact the prices we charge our customers.

Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. We cannot predict the potential impact of such laws or regulations on our future consolidated financial condition, results of operations or cash flows.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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; Lecato, Virginia; and Winter Haven, Florida. The Company rents office space in Dover, Ocean View, and South Bethany, Delaware; Jupiter and Lecanto, Florida; Chincoteague and Belle Haven, Virginia; Easton, Maryland; Honey Brook and Allentown, Pennsylvania; Houston, Texas; and Norcross, Georgia. In general, the Company believes that its offices and facilities are adequate for the uses for which they are employed.

(b) Natural Gas Distribution

The Company owns over 1,076 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas and 754 miles of natural gas distribution mains (and related equipment) in its Florida service areas. The Company also owns facilities in Delaware and Maryland, which it uses for propane-air injection during periods of peak demand.

(c) Natural Gas Transmission

ESNG owns and operates approximately 379 miles of transmission pipelines, extending from supply interconnects at Parkesburg, Pennsylvania; Daleville, Pennsylvania; and Hockessin, Delaware, to approximately 81 delivery points in southeastern Pennsylvania, Delaware and the Eastern Shore of Maryland.

(d) Propane Distribution and Wholesale Marketing

The Company's Delmarva-based propane distribution operation owns bulk propane storage facilities, with an aggregate capacity of approximately 2.4 million gallons, at 42 plant facilities in Delaware, Maryland, Pennsylvania and Virginia, located on real estate that is either owned or leased. The Company's Florida-based propane distribution operation owns three bulk propane storage facilities with a total capacity of 66,000 gallons. Xeron does not own physical storage facilities or equipment to transport propane; however, it leases propane storage and pipeline capacity.

ITEM 3. LEGAL PROCEEDINGS.

(a) General

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

(b) Environmental

See discussion of environmental commitments and contingencies in Item 8 under the heading "Notes to Consolidated Financial Statements — Note N."

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

None

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

Set forth below are the names, ages, and positions of executive officers of the registrant at December 31, 2008, with their recent business experience. The age of each officer is as of the filing date of this report.

Name	Age	Position
John R. Schimkaitis	61	President and Chief Executive Officer
Michael P. McMasters	50	Executive Vice President and Chief Operating Officer
Beth W. Cooper	42	Senior Vice President and Chief Financial Officer
Stephen C. Thompson	48	Senior Vice President and President, ESNG
S. Robert Zola	56	President, Sharp Energy

John R. Schimkaitis is President and Chief Executive Officer of Chesapeake and its subsidiaries. Mr. Schimkaitis assumed the role of Chief Executive Officer on January 1, 1999. He has served as President since 1997. Mr. Schimkaitis previously served as Chief Operating Officer, Executive Vice President, Senior Vice President, Chief Financial Officer, Vice President, Treasurer, Assistant Treasurer and Assistant Secretary of Chesapeake.

Michael P. McMasters was appointed as Executive Vice President and Chief Operating Officer in September of 2008. Prior to this appointment, Mr. McMasters served as Senior Vice President since 2004 and Chief Financial Officer of the Company since 1996. He has previously held the positions of Vice President, Treasurer, 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.

Beth W. Cooper was appointed as Senior Vice President and Chief Financial Officer in September of 2008 in addition to her duties as Treasurer and Corporate Secretary. Prior to this appointment, Ms. Cooper served as Vice President and Corporate Secretary of Chesapeake Utilities Corporation since July 2005. She has served as Treasurer of the Company since 2003. She previously served as Assistant Treasurer and Assistant Secretary, Director of Internal Audit, Director of Strategic Planning, Planning Consultant, Accounting Manager for Non-regulated Operations and Treasury Analyst. Prior to joining Chesapeake, she was employed as an auditor with Ernst & Young's Entrepreneurial Services Group.

Stephen C. Thompson is Senior Vice President of Chesapeake Utilities Corporation and President of ESNG. Prior to becoming Senior Vice President in 2004, he served as Vice President of Chesapeake. He has also served as Vice President, Director of Gas Supply and Marketing, Superintendent of ESNG and Regional Manager for the Florida distribution operations.

S. Robert Zola joined Sharp Energy in August 2002 as President. Prior to joining Sharp Energy, Mr. Zola most recently served as Northeast Regional Manager of Synergy Gas, now Cornerstone MLP, in Philadelphia, PA. During his 27-year career in the propane industry, Mr. Zola also started and successfully developed Bluestreak Propane, in Phoenix, AZ, which was ultimately sold to Ferrellgas.

PART II

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

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

The Company's common stock is listed on the NYSE under the symbol "CPK." The high, low and closing prices of the Company's common stock and dividends declared per share for each calendar quarter during the years 2008 and 2007 were as follows:

	Quarter Ended	High	Low	Close	Dividends Declared Per Share
2008					
	March 31	**$ 33.60**	**$ 27.21**	**$ 29.64**	**$ 0.295**
	June 30	**31.88**	**25.02**	**25.72**	**0.305**
	September 30	**34.84**	**24.65**	**33.21**	**0.305**
	December 31	**34.66**	**21.93**	**31.48**	**0.305**
2007					
	March 31	$ 31.10	$ 28.85	$ 30.94	$ 0.290
	June 30	35.58	29.92	34.24	0.295
	September 30	37.25	28.00	33.94	0.295
	December 31	36.38	29.59	31.85	0.295

Holders

At December 31, 2008, there were 1,914 holders of record of Chesapeake Utilities Corporation common stock.

Dividends

Chesapeake has paid a cash dividend to common stock shareholders for forty-eight consecutive years. Dividends are payable at the discretion of our Board of Directors. Future payment of dividends, and the amount of these dividends, will depend on our financial condition, results of operations, capital requirements, and other factors. We sold no securities during the year 2008 that were not registered under the Securities Act of 1933, as amended.

Indentures to the long-term debt of the Company contain various restrictions. In terms of restrictions which limit the payment of dividends by the Company, each of the Company's Unsecured Senior Notes contains a "Restricted Payments" covenant. The most restrictive covenants of this type are included within the 7.83% Senior Notes, due January 1, 2015. The covenant provides that the Company cannot pay or declare any dividends or make any other Restricted Payments (such as dividends) in excess of the sum of $10.0 million plus consolidated net income of the Company accrued on and after January 1, 2001. As of December 31, 2008, the Company's cumulative consolidated net income base was $86.9 million, offset by Restricted Payments of $54.4 million, leaving $32.5 million of cumulative net income free of restrictions.

(b) Purchases of Equity Securities by the Issuer

The following table sets forth information on purchases by or on behalf of Chesapeake of shares of its common stock during the quarter ended December 31, 2008.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2]	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs [2]
October 1, 2008 through October 31, 2008 [1]	594	$31.62	0	0
November 1, 2008 through November 30, 2008	0	$0.00	0	0
December 1, 2008 through December 31, 2008	0	$0.00	0	0
Total	594	$31.62	0	0

[1] Chesapeake purchased shares of stock on the open market for the purpose of reinvesting the dividend on deferred stock units held in the Rabbi Trust accounts for certain Senior Executives and Directors under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Note K to the Consolidated Financial Statements. During the quarter, 594 shares were purchased through the reinvestment of dividends on deferred stock units.

[2] Except for the purposes described in Footnote (1), Chesapeake has no publicly announced plans or programs to repurchase its shares.

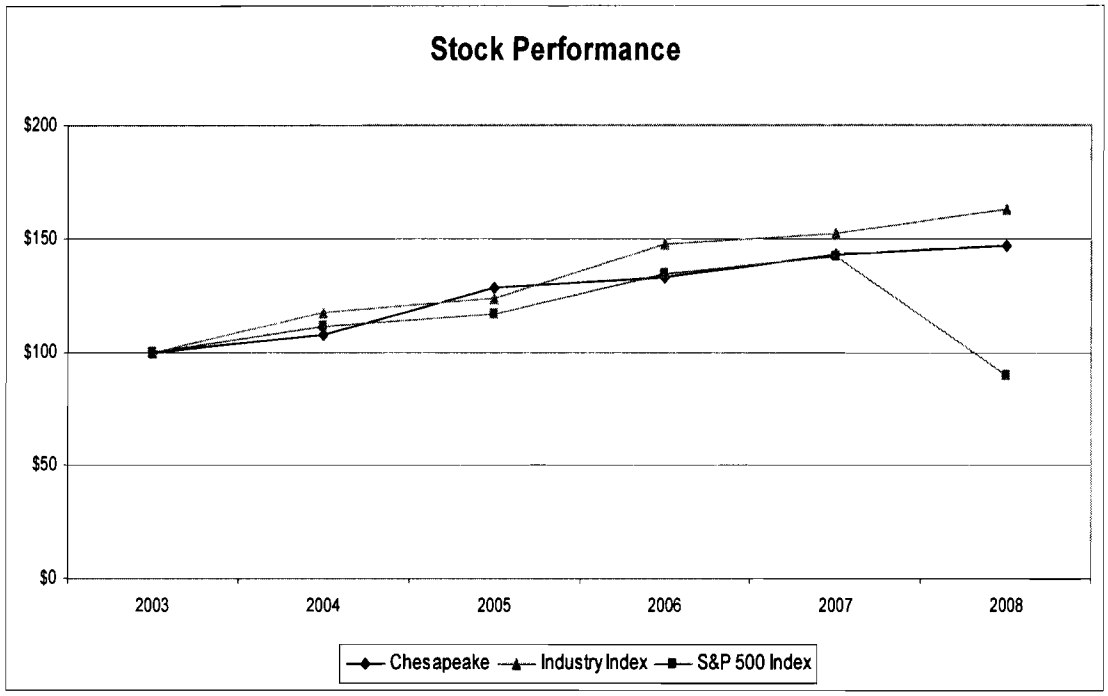
Discussion of compensation plans of Chesapeake and its subsidiaries, for which shares of Chesapeake common stock are authorized for issuance, included in the portion of the Proxy Statement captioned "Equity Compensation Plan Information" to be filed not later than March 31, 2009, in connection with the Company's Annual Meeting to be held on May 6, 2009, is incorporated herein by reference.

(c) Chesapeake Utilities Corporation Common Stock Performance Graph

The following stock Performance Graph compares cumulative total shareholder return on a hypothetical investment in the Company's common stock during the five fiscal years ended December 31, 2008, with the cumulative total shareholder return on a hypothetical investment in both (i) the Standard & Poor's 500 ("S&P 500 Index"), and (ii) an industry index consisting of 13 companies in the Edward Jones Natural Gas Distribution Group, a published listing of selected gas distribution utilities' results. The Company's Performance Graph for the previous year included all but one of these same companies. The Company's Compensation Committee utilizes the Edward Jones Natural Gas Distribution Group as its peer group to which the Company's performance is compared for purposes of determining the level of long-term performance awards earned by the Company's named executives.

The thirteen companies in the Edward Jones Natural Gas Distribution Group industry index include: AGL Resources, Inc., Atmos Energy Corporation, Chesapeake Utilities Corporation, Corning Natural Gas Corporation, Delta Natural Gas Company, Inc., Energy West, Inc., The Laclede Group, Inc., New Jersey Resources Corporation, Northwest Natural Gas Company, Piedmont Natural Gas Co., Inc., RGC Resources, Inc., South Jersey Industries, Inc, and WGL Holdings, Inc. The Company excluded EnergySouth, Inc. from its comparison due to its recent acquisition by Sempra Energy.

The comparison assumes $100 was invested on December 31, 2003 in the Company's common stock and in each of the foregoing indices and assumes reinvested dividends. The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company's common stock.



	2003	2004	2005	2006	2007	2008
Chesapeake	$100	$107	$128	$133	$143	$147
Industry Index	$100	$117	$123	$147	$152	$163
S&P 500 Index	$100	$111	$116	$135	$142	$90

ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31,	2008	2007	2006 [3]
Operating *(in thousands of dollars)* [1]			
Revenues			
Natural gas	**$211,402**	$181,202	$170,374
Propane	**65,877**	62,838	48,576
Advanced informations systems	**14,720**	15,099	12,568
Other and eliminations	**(556)**	(853)	(318)
Total revenues	**$291,443**	$258,286	$231,200
Operating income			
Natural gas	**$25,846**	$22,485	$19,733
Propane	**1,586**	4,498	2,534
Advanced informations systems	**695**	836	767
Other and eliminations	**352**	295	298
Total operating income	**$28,479**	$28,114	$23,332
Net income from continuing operations	**$13,607**	$13,218	$10,748
Assets *(in thousands of dollars)*			
Gross property, plant and equipment	**$381,688**	$352,838	$325,836
Net property, plant and equipment [2]	**$280,671**	$260,423	$240,825
Total assets [2]	**$385,795**	$381,557	$325,585
Capital expenditures [1]	**$30,844**	$30,142	$49,154
Capitalization *(in thousands of dollars)*			
Stockholders' equity	**$123,073**	$119,576	$111,152
Long-term debt, net of current maturities	**86,422**	63,256	71,050
Total capitalization	**$209,495**	$182,832	$182,202
Current portion of long-term debt	**6,657**	7,656	7,656
Short-term debt	**33,000**	45,664	27,554
Total capitalization and short-term financing	**$249,152**	$236,152	$217,412

[1] These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. The Company closed its distributed energy operation in 2007. All assets of all of the water businesses were sold in 2004 and 2003.

[2] SFAS No. 143 was adopted in the year 2001; therefore, SFAS No. 143 was not applicable for the years prior to 2001.

[3] SFAS No. 123R and SFAS No. 158 were adopted in the year 2006; therefore, they were not applicable for the years prior to 2006.

2005	2004	2003	2002	2001	2000	1999
$166,582	$124,246	$110,247	$93,588	$107,418	$101,138	$75,637
48,976	41,500	41,029	29,238	35,742	31,780	25,199
14,140	12,427	12,578	12,764	14,104	12,390	13,531
(213)	(218)	(286)	(334)	(113)	(131)	(14)
$229,485	$177,955	$163,568	$135,256	$157,151	$145,177	$114,353
$17,236	$17,091	$16,653	$14,973	$14,405	$12,798	$10,388
3,209	2,364	3,875	1,052	913	2,135	2,622
1,197	387	692	343	517	336	1,470
279	335	359	237	386	816	495
$21,921	$20,177	$21,579	$16,605	$16,221	$16,085	$14,975
$10,699	$9,686	$10,079	$7,535	$7,341	$7,665	$8,372
$280,345	$250,267	$234,919	$229,128	$216,903	$192,925	$172,068
$201,504	$177,053	$167,872	$166,846	$161,014	$131,466	$117,663
$295,980	$241,938	$222,058	$223,721	$222,229	$211,764	$166,958
$33,423	$17,830	$11,822	$13,836	$26,293	$22,057	$21,365
$84,757	$77,962	$72,939	$67,350	$67,517	$64,669	$60,714
58,991	66,190	69,416	73,408	48,409	50,921	33,777
$143,748	$144,152	$142,355	$140,758	$115,926	$115,590	$94,491
4,929	2,909	3,665	3,938	2,686	2,665	2,665
35,482	5,002	3,515	10,900	42,100	25,400	23,000
$184,159	$152,063	$149,535	$155,596	$160,712	$143,655	$120,156

ITEM 6. SELECTED FINANCIAL DATA

For the Years Ended December 31,	2008	2007	2006 [3]
Common Stock Data and Ratios			
Basic earnings per share from continuing operations [1]	**$2.00**	$1.96	$1.78
Diluted earnings per share from continuing operations [1]	**$1.98**	$1.94	$1.76
Return on average equity from continuing operations [1]	**11.2%**	11.5%	11.0%
Common equity / total capitalization	**58.7%**	65.4%	61.0%
Common equity / total capitalization and short-term financing	**49.4%**	50.6%	51.1%
Book value per share	**$18.03**	$17.64	$16.62
Market price:			
High	**$34.840**	$37.250	$35.650
Low	**$21.930**	$28.000	$27.900
Close	**$31.480**	$31.850	$30.650
Average number of shares outstanding	**6,811,848**	6,743,041	6,032,462
Shares outstanding at year-end	**6,827,121**	6,777,410	6,688,084
Registered common shareholders	**1,914**	1,920	1,978
Cash dividends declared per share	**$1.21**	$1.18	$1.16
Dividend yield (annualized) [2]	**3.9%**	3.7%	3.8%
Payout ratio from continuing operations [1] [4]	**60.5%**	60.2%	65.2%
Additional Data			
Customers			
Natural gas distribution and transmission	**65,201**	62,884	59,132
Propane distribution	**34,981**	34,143	33,282
Volumes			
Natural gas deliveries (in MMCF)	**39,778**	34,820	34,321
Propane distribution (in thousands of gallons)	**27,956**	29,785	24,243
Heating degree-days (Delmarva Peninsula)			
Actual HDD	**4,431**	4,504	3,931
10 -year average HDD (normal)	**4,401**	4,376	4,372
Propane bulk storage capacity (in thousands of gallons)	**2,471**	2,441	2,315
Total employees [1]	**448**	445	437

[1] These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. The Company closed its distributed energy operation in 2007. All assets of all of the water businesses were sold in 2004 and 2003.

[2] Dividend yield (annualized) is calculated by multiplying the fourth quarter dividend by four (4), then dividing that amount by the closing common stock price at December 31.

[3] SFAS No. 123R and SFAS No. 158 were adopted in the year 2006; therefore, they were not applicable for the years prior to 2006.

[4] The payout ratio from continuing operations is calculated by dividing cash dividends declared per share (for the year) by basic earnings per share from continuing operations.

2005	2004	2003	2002	2001	2000	1999
$1.83	$1.68	$1.80	$1.37	$1.37	$1.46	$1.63
$1.81	$1.64	$1.76	$1.37	$1.35	$1.43	$1.59
13.2%	12.8%	14.4%	11.2%	11.1%	12.2%	14.3%
59.0%	54.1%	51.2%	47.8%	58.2%	55.9%	64.3%
46.0%	51.3%	48.8%	43.3%	42.0%	45.0%	50.5%
$14.41	$13.49	$12.89	$12.16	$12.45	$12.21	$11.71
$35.780	$27.550	$26.700	$21.990	$19.900	$18.875	$19.813
$23.600	$20.420	$18.400	$16.500	$17.375	$16.250	$14.875
$30.800	$26.700	$26.050	$18.300	$19.800	$18.625	$18.375
5,836,463	5,735,405	5,610,592	5,489,424	5,367,433	5,249,439	5,144,449
5,883,099	5,778,976	5,660,594	5,537,710	5,424,962	5,297,443	5,186,546
2,026	2,026	2,069	2,130	2,171	2,166	2,212
$1.14	$1.12	$1.10	$1.10	$1.10	$1.07	$1.03
3.7%	4.2%	4.2%	6.0%	5.6%	5.8%	5.7%
62.3%	66.7%	61.1%	80.3%	80.3%	73.3%	63.2%
54,786	50,878	47,649	45,133	42,741	40,854	39,029
32,117	34,888	34,894	34,566	35,530	35,563	35,267
34,981	31,430	29,375	27,935	27,264	30,830	27,383
26,178	24,979	25,147	21,185	23,080	28,469	27,788
4,792	4,553	4,715	4,161	4,368	4,730	4,082
4,436	4,389	4,409	4,393	4,446	4,356	4,409
2,315	2,045	2,195	2,151	1,958	1,928	1,926
423	426	439	455	458	471	466

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

INTRODUCTION

This section provides management's discussion of Chesapeake and its consolidated subsidiaries, with specific information on results of operations and liquidity and capital resources. It includes management's interpretation of our financial results, the factors affecting these results, the major factors expected to affect future operating results and future investment and financing plans. This discussion should be read in conjunction with our consolidated financial statements and notes thereto.

Several factors exist that could influence our future financial performance, some of which are described in Item 1A above, "Risk Factors." They should be considered in connection with evaluating forward-looking statements contained in this report, or otherwise made by or on behalf of us, since these factors could cause actual results and conditions to differ materially from those set out in such forward-looking statements.

EXECUTIVE OVERVIEW

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

The Company's strategy is focused on growing earnings from a stable utility foundation and investing in related businesses and services that provide opportunities for returns greater than traditional utility returns. The key elements of this strategy include:

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the natural gas distribution and transmission business through expansion into new geographic areas in our current service territories;
- expanding the propane distribution business in existing and new markets through leveraging our community gas system services and our bulk delivery capabilities;
- utilizing the Company's expertise across our various businesses to improve overall performance;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to retain existing customers;
- maintaining a capital structure that enables the Company to access capital as needed; and
- maintaining a consistent and competitive dividend for shareholders.

The following discussions and those later in the document on operating income and segment results include use of the term "gross margin." Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes the purchased cost of natural gas and propane and the cost of labor spent on direct revenue-producing activities. Gross margin should not be considered an alternative to operating income or net income, which are determined in accordance with GAAP. Chesapeake believes that gross margin, although a non-GAAP measure, is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates the profitability achieved by the Company under its allowed rates for regulated operations and under its competitive pricing structure for non-regulated segments. Chesapeake's management uses gross margin in measuring its business units' performance and has historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

Chesapeake had a successful 2008, in spite of the state of the global economic and financial markets. For the year, net income increased by three percent as the Company earned $13.6 million in net income, or $1.98 per share (diluted), compared to net income of $13.2 million, or $1.94 per share (diluted), earned in 2007. We were able to achieve this growth despite taking a charge of $1.2 million in other operating expenses for costs related to an unconsummated

acquisition. Absent this charge, the Company estimates that, compared to 2007, net income would have increased to $14.3 million, or $2.08 per share (diluted).

The higher period-over-period net income was attributable primarily to our natural gas segment. Our natural gas transmission and distribution operations continued to invest capital in current growth initiatives that favorably positioned us for future growth as well. These operations invested $25.6 million in property, plant, and equipment during 2008, primarily to expand our transmission and distribution systems. These expansions were undertaken pursuant to additional long-term firm transportation service contracts for our transmission operation and continued customer growth for the distribution operations. Collectively, these growth initiatives contributed $2.8 million to gross margin in 2008.

As a result of market conditions in the housing industry, the Company continued to see a slowdown in the number of new houses being constructed. Despite this slowdown, the average number of residential customers served by our natural gas distribution operations increased by four percent. While this growth percentage is lower than that experienced in recent years, it is still significantly above the national average.

PESCO experienced a record year as gross margin increased by 91 percent over 2007. This increase was achieved through enhanced sales contract terms, margins on spot sales of approximately $600,000 and a 26-percent growth in its customer base. A 26-percent increase in its customer base contributed to a 41-percent increase in volumes sold in 2008.

The successful completion of rate proceedings for the Company's natural gas transmission and Delmarva distribution operations added $387,000 to gross margin in 2008. In addition, these rate proceedings provided for lower depreciation allowances and lower asset removal cost allowances, which contributed to the period-over-period decrease in depreciation expense and asset removal costs of $2.3 million in 2008.

Propane price volatility during 2008 affected our wholesale marketing operation positively and our propane distribution operation negatively. Xeron capitalized on the price volatility, seizing opportunities to sell at prices above cost and to manage effectively the larger spreads between the market (spot) prices and forward propane prices experienced in 2008, which contributed to the operation's 38-percent year-over-year growth in gross margin.

In contrast, the volatility of wholesale propane prices had a negative impact on our propane distribution operations. Wholesale propane prices rose dramatically during the spring months of 2008, when they are traditionally falling. In efforts to protect the Company from the impact that additional price increases would have on our Pro-Cap (propane price-cap) Plan that we offer to customers, the propane distribution operation entered into a swap agreement. By December 31, 2008, the market price of propane had plummeted well below the unit price in the swap agreement. As a result, the Company marked the agreement relating to the January 2009 and February 2009 gallons to market, which increased cost of sales by $939,000 for 2008 and resulted in the Company adjusting the valuation of its propane inventory to current market prices in accordance with Accounting Research Bulletin No. 43. Both of these adjustments reduced gross margin during 2008 by a total of $2.3 million compared to 2007. The Company subsequently terminated the swap agreement in January 2009.

Adverse economic conditions severely affected the advanced information services segment. BravePoint experienced lower consulting revenues as customers began to conserve their information technology spending, resulting in a nine percent decline in billable hours in 2008 compared to 2007.

In response to the instability and volatility of the financial markets, we increased the amounts of our committed short-term borrowing capacity from $15.0 million to $55.0 million, while maintaining total short-term line-of-credit capacity of $100.0 million. In addition, on October 31, 2008, the Company executed a $30.0 million long-term debt placement of 5.93 percent Unsecured Senior Notes, maturing on October 31, 2023.

Operating Income

The year-over-year increase in operating income for 2008, driven by the strong performance of our natural gas business segment, was partially offset by lower operating income from the propane and advanced information services business segments.

(In thousands)	2008	2007	Change	Percentage Change
Natural gas	$ 25,846	$ 22,485	$ 3,361	15%
Propane	1,586	4,498	(2,912)	-65%
Advanced information services	695	836	(141)	-17%
Other & eliminations	352	295	57	19%
Total operating income	$ 28,479	$ 28,114	$ 365	1%

The Company's financial performance is discussed in greater detail below in "Results of Operations."

Critical Accounting Policies

Chesapeake prepares its financial statements in accordance with GAAP. Application of these accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingencies during the reporting period. Chesapeake bases its estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Since most of Chesapeake's businesses are regulated and the accounting methods used by these businesses must comply with the requirements of the regulatory bodies, the choices available are limited by these regulatory requirements. In the normal course of business, estimated amounts are subsequently adjusted to actual results that may differ from estimates. Management believes that the following policies require significant estimates or other judgments of matters that are inherently uncertain. These policies and their application have been discussed with Chesapeake's Audit Committee.

Regulatory Assets and Liabilities

As a result of the ratemaking process, Chesapeake records certain assets and liabilities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation;" consequently, the accounting principles applied by our regulated utilities differ in certain respects from those applied by the unregulated businesses. Costs are deferred when there is a probable expectation that they will be recovered in future revenues as a result of the regulatory process. As more fully described in Note A to the Consolidated Financial Statements, Chesapeake had recorded regulatory assets of $3.6 million and regulatory liabilities of $24.7 million, at December 31, 2008. If the Company were required to terminate application of SFAS No. 71, it would be required to recognize all such deferred amounts as a charge or a credit to earnings, net of applicable income taxes. Such an adjustment could have a material effect on the Company's results of operations.

Valuation of Environmental Assets and Liabilities

As more fully described in Note N, "Environmental Commitments and Contingencies," in the Notes to the Consolidated Financial Statements, Chesapeake has completed its responsibilities related to one environmental site and is currently participating in the investigation, assessment or remediation of three other former manufactured gas plant sites. Amounts have been recorded as environmental liabilities and associated environmental regulatory assets based on estimates of future costs provided by independent consultants. There is uncertainty in these amounts, because the United States Environmental Protection Agency ("EPA") or other applicable state environmental authority may not have selected the final remediation methods. In addition, there is uncertainty with regard to amounts that may be recovered from other potentially responsible parties.

Since the Company's management believes that recovery of these expenditures, including any litigation costs, is probable through the regulatory process, the Company has recorded, in accordance with SFAS No. 71, a regulatory asset and corresponding regulatory liability. At December 31, 2008, Chesapeake had recorded an environmental regulatory asset of $779,000 and a liability of $511,000 for environmental costs.

Derivatives

Chesapeake may use derivative instruments to manage the price risk of its natural gas and propane purchasing activities. The Company continually monitors the use of these instruments to ensure compliance with its risk management policies and accounts for them in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," by recording their fair value as assets and liabilities. If the derivative contracts meet the "normal purchase and normal sale" scope exception of SFAS No. 133, the related activities and services are accounted for on an accrual basis of accounting.

The following is a review of Chesapeake's use of derivative instruments at December 31, 2008 and 2007:

- The natural gas distribution and marketing operations, during 2008 and 2007, entered into physical contracts for the purchase and sale of natural gas, which qualified for the "normal purchases and normal sales" scope exception under SFAS No. 133 in that they provided for the purchase or sale of natural gas to be delivered in quantities expected to be used or sold by the Company over a reasonable period of time in the normal course of business. Accordingly, they were not subject to the accounting requirements of SFAS No. 133.

- During 2008 and 2007, Chesapeake's propane distribution operations entered into physical contracts to buy propane supplies, which qualified for the "normal purchases and normal sales" scope exception under SFAS No. 133 in that they provided for the purchase or sale of propane to be delivered in quantities expected to be used or sold by the Company over a reasonable period of time in the normal course of business. Accordingly, the related liabilities incurred and assets acquired under these contracts were recorded when title to the underlying commodity passed.

- During 2008, but not during 2007, the propane distribution operation entered into a swap agreement to protect the Company from the impact of price increases on the Pro-Cap (propane price-cap) Plan that we offer to customers. The Company considered this agreement to be an economic hedge that did not qualify for hedge accounting as described in SFAS No. 133. At the end of the period, the market price of propane dropped below the unit price in the swap agreement. As a result of the price drop, the Company marked the agreement relating to the January 2009 and February 2009 gallons to market, which increased cost of sales in 2008 by approximately $939,000. In January 2009, the Company terminated this swap agreement.

- Chesapeake's propane wholesale marketing operation enters into forward and futures contracts that are considered derivatives under SFAS No. 133. In accordance with SFAS No. 133, open positions are marked to market using prices at the end of each reporting period and unrealized gains or losses are recorded in the Consolidated Statement of Income as revenue or expense. The contracts mature within one year and are almost exclusively for propane commodities, with delivery points at Mt. Belvieu, Texas; Conway, Kansas; and Hattiesburg, Mississippi. Management estimates the market valuation based on references to exchange-traded futures prices, historical differentials and actual trading activity at the end of the reporting period. Commodity price volatility may have a significant impact on the gain or loss in any given period. At December 31, 2008, these contracts had net unrealized gains of $1.4 million that were recorded in the financial statements. At December 31, 2007, these contracts had net unrealized gains of $179,000 that were recorded in the financial statements.

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the PSCs of the jurisdictions in which we operate. The natural gas transmission operation's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions. The PSCs, however, have granted the Company's regulated natural gas distribution operations the ability to negotiate rates,

based on approved methodologies, with customers that have competitive alternatives. In addition, the natural gas transmission operation can negotiate rates above or below the FERC-approved tariff rates.

For regulated deliveries of natural gas, Chesapeake reads meters and bills customers on monthly cycles that do not coincide with the accounting periods used for financial reporting purposes. Chesapeake accrues unbilled revenues for gas that has been delivered, but not yet billed, at the end of an accounting period to the extent that they do not coincide. In connection with this accrual, Chesapeake must estimate the amount of gas that has not been accounted for on its delivery system and must estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made to accrue unbilled revenues for propane customers with meters, such as community gas system customers.

The propane wholesale marketing operation records trading activity for open contracts on a net mark-to-market basis in the Company's income statement. The propane distribution, advanced information services and other segments record revenue in the period the products are delivered and/or services are rendered.

Chesapeake's natural gas distribution operations in Delaware and Maryland each have a purchased gas cost recovery mechanism. This mechanism provides the Company with a method of adjusting the billing rates with its customers for changes in the cost of purchased gas included in base rates. The difference between the current cost of gas purchased and the cost of gas recovered in billed rates is deferred and accounted for as either unrecovered purchased gas costs or amounts payable to customers. Generally, these deferred amounts are recovered or refunded within one year.

The Company charges flexible rates to its natural gas distribution industrial interruptible customers to compete with alternative types of fuel. Based on pricing, these customers can choose natural gas or alternative fuels. Neither the Company nor the interruptible customer is contractually obligated to deliver or receive natural gas.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded against amounts due to reduce the net receivable balance to the amount we reasonably expect to collect based upon our collections experiences, the condition of the overall economy and our assessment of our customers' inability or reluctance to pay. If circumstances change, however, our estimate of the recoverability of accounts receivable may also change. Circumstances which could affect our estimates include, but are not limited to, customer credit issues, the level of natural gas prices and general economic conditions. Accounts are written off once they are deemed to be uncollectible.

Pension and other Postretirement Benefits

Pension and other postretirement plan costs and liabilities are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the expected return on plan assets, assumed discount rates, the level of contributions made to the plans, current demographic and actuarial mortality data. The assumed discount rate and the expected return on plan assets are the assumptions that generally have the most significant impact on the Company's pension costs and liabilities. The assumed discount rate, the assumed health care cost trend rate and the assumed rates of retirement generally have the most significant impact on our postretirement plan costs and liabilities. Additional information is presented in Note L, "Employee Benefit Plans," in the Notes to the Consolidated Financial Statements, including plan asset investment allocation, estimated future benefit payments, general descriptions of the plans, significant assumptions, the impact of certain changes in assumptions, and significant changes in estimates.

The total pension and other postretirement benefit costs included in operating income were $537,000, $370,000 and $387,000 in 2008, 2007 and 2006, respectively. The company expects to record higher pension and postretirement benefit costs in the range of $400,000 to $600,000 for 2009. The increased costs for 2009 represents the significant market decline in the values of the defined pension plan assets when compared to prior years. Actuarial assumptions affecting 2009 include an expected long-term rate of return on plan assets of 6.0 percent, consistent with the prior year, and discount rates of 5.25 percent for each of the plans, compared with 5.5 percent for the plans a year

earlier. The discount rates for each plan were determined by the Company considering high quality corporate bond rates based on Moody's Aa bond index, changes in those rates from the prior year, and other pertinent factors, such as the expected life of the plan and the lump-sum-payment option.

Results of Operations

Net Income & Diluted Earnings Per Share Summary

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Net Income (Loss)*						
Continuing operations	**$13,607**	$13,218	$389	$13,218	$10,748	$2,470
Discontinued operations	-	(20)	20	(20)	(241)	221
Total Net Income	**$13,607**	$13,198	$410	$13,198	$10,507	$2,691
Diluted Earnings (Loss) Per Share						
Continuing operations	**$1.98**	$1.94	$0.04	$1.94	$1.76	$0.18
Discontinued operations	-	-	-	-	(0.04)	0.04
Total Earnings Per Share	**$1.98**	$1.94	$0.04	$1.94	$1.72	$0.22

** Dollars in thousands.*

The Company's net income from continuing operations increased by $389,000 in 2008 compared to 2007. Net income from continuing operations was $13.6 million, or $1.98 per share (diluted), for 2008, compared to net income from continuing operations of $13.2 million, or $1.94 per share (diluted) in 2007. Our 2008 results include a charge of $1.2 million to other operating expenses for costs relating to an unconsummated acquisition. The Company initiated discussions in the third quarter of 2007 with a potential acquisition target. These discussions continued through the first part of the second quarter of 2008, at which time, we determined that we would not be able to complete the acquisition. In the course of these negotiations, the Company incurred certain accounting, legal and other professional fees and expenses, which were expensed in the second quarter of 2008 in accordance with SFAS No. 141, "Business Combinations." Absent the charge for the unconsummated acquisition, the Company estimates that period-over-period net income would have increased by $1.1 million in 2008 to $14.3 million, or $2.08 per share (diluted).

The Company's net income from continuing operations increased by $2.5 million in 2007 compared to 2006. Net income from continuing operations was $13.2 million, or $1.94 per share (diluted), for 2007, compared to net income from continuing operations of $10.8 million, or $1.76 per share (diluted) in 2006.

During 2007, Chesapeake decided to close its distributed energy services company, OnSight, which consistently experienced operating losses since 2004. The results of operations for OnSight have been reclassified to discontinued operations and shown net of tax for all periods presented. The discontinued operations experienced a net loss of $20,000 for 2007, compared to a net loss of $241,000, or $0.04 per share (diluted) for 2006. The Company did not have any discontinued operations in 2008.

Operating Income Summary (in thousands)

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Business Segment:						
Natural gas	**$25,846**	$22,485	$3,361	$22,485	$19,733	$2,752
Propane	**1,586**	4,498	(2,912)	4,498	2,534	1,964
Advanced information services	**695**	836	(141)	836	767	69
Other & eliminations	**352**	295	57	295	298	(3)
Operating Income	**$28,479**	$28,114	$365	$28,114	$23,332	$4,782
Other Income	**103**	291	(188)	291	189	102
Interest Charges	**6,158**	6,590	(432)	6,590	5,774	816
Income Taxes	**8,817**	8,597	220	8,597	6,999	1,598
Net Income from Continuing Operations	**$13,607**	$13,218	$389	$13,218	$10,748	$2,470

2008 Compared to 2007

Operating income in 2008 increased by approximately $365,000, or one percent, compared to 2007. The financial, operational and other highlights or factors affecting the period-over-period change in operating income included the following:

- For the Company's natural gas marketing operation, enhanced sales contract terms, margins on spot sales of approximately $600,000 and a 26-percent growth in its customer base produced a period-over-period increase of $1.5 million, or 91 percent, in gross margin.
- New long-term, transportation capacity contracts implemented by ESNG in November 2007 provided for 8,300 Dts of additional firm transportation service per day, generating $200,000 of gross margin in 2007 and $1.0 million in 2008 for an annualized gross margin of $1.2 million.
- On January 7, 2008, ESNG received authorization from the FERC to commence construction of a portion of the Phase III facilities (approximately 9.2 miles) of the 2006-2008 System Expansion Project. These additional facilities, which were completed and placed in service on November 1, 2008, provided for 5,650 Dts of additional firm transportation service per day, generating $165,000 of gross margin in 2008 and annualized gross margin of $988,000.
- The results of rate proceedings for the Company's natural gas transmission and Delmarva distribution operations added $387,000 to gross margin in 2008. These rate proceedings also provided for lower depreciation allowances and lower asset removal cost allowances, which contributed to the period-over-period decrease in depreciation expense and asset removal costs of $2.3 million in 2008.
- Volatile wholesale propane prices in 2008 provided a gross margin increase of $901,000 for the Company's propane wholesale and marketing subsidiary.
- Despite the continued slowdown in new residential housing construction as a result of unfavorable economic conditions, the Company's natural gas distribution operations continued to experience strong customer growth with a four percent increase in 2008.
- Declining propane prices during the second half of 2008 had a negative impact on operating income for the propane distribution operations as the Company adjusted the valuation of its propane inventory to current market prices in accordance with Accounting Research Bulletin No. 43. These adjustments reduced gross margin by $800,000 during 2008. In addition, the Company recognized a charge of $939,000 to cost of sales as January 2009 and February 2009 gallons in its price swap agreement were marked to market as of the end 2008.
- As previously discussed, a charge of $1.2 million for costs relating to an unconsummated acquisition increased other operating expenses.
- Corporate overhead increased $519,000 in 2008 due to increased payroll and benefit costs of $132,000 and $83,000, respectively, as several key corporate positions that were vacant in 2007 were filled in 2008. In addition, outside services increased $263,000 due primarily to consulting costs relating to an independent third-party compensation survey, strategic planning and growth initiatives. As a result of the compensation survey, the Company implemented salary adjustments, effective January 1, 2009, that will increase payroll related costs by approximately $754,000 in 2009.

- The Company continued to invest in property, plant and equipment to support current and future growth opportunities, expending $30.8 million in 2008 for such purposes.
- Even though banks were tightening their lending in response to the current financial crisis, Chesapeake was able to firm up its credit lines during this volatile period by increasing its total committed short-term borrowing capacity from $15.0 million to $55.0 million. In addition, on October 31, 2008, the Company executed a $30.0 million long-term debt placement of 5.93 percent Unsecured Senior Notes.

2007 Compared to 2006

Compared to 2006, operating income in 2007 increased by $4.8 million, or 20 percent. Factors affecting this improvement included the following:

- New transportation capacity contracts implemented for the natural gas transmission operation in November 2006 and November 2007 provided for $3.3 million of additional gross margin in 2007.
- Weather on the Delmarva Peninsula was 15 percent colder in 2007 than in 2006, which, the Company estimates contributed approximately $2.0 million in additional gross margin for its Delmarva natural gas and propane distribution operations. This amount differs from the $2.2 million of additional gross margin that the Company had expected the colder weather to contribute, as a result of the season or month that the heating degree-day variance occurred.
- Rate increases to customers of the natural gas transmission and distribution operations in Delaware and Maryland added $1.4 million to gross margin in 2007.
- Strong period-over-period residential customer growth of seven percent and five percent, respectively, was achieved for the Delmarva and Florida natural gas distribution operations in 2007.
- The average gross margin per retail gallon sold to customers increased by $0.05 in 2007 for the Delmarva propane distribution operations, which contributed $1.1 million to gross margin.
- The Delmarva Community Gas Systems continued to experience strong customer growth as the number of customers increased by 22 percent in 2007.

Natural Gas

The natural gas segment recognized operating income of $25.8 million for 2008, $22.5 million for 2007, and $19.7 million for 2006, representing increases of $3.4 million, or 15 percent for 2008, and $2.8 million, or 14 percent for 2007.

Natural Gas (in thousands)

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Revenue	**$211,402**	$181,202	$30,200	$181,202	$170,374	$10,828
Cost of gas	**146,546**	121,550	24,996	121,550	117,948	3,602
Gross margin	**64,856**	59,652	5,204	59,652	52,426	7,226
Operations & maintenance	**26,579**	26,024	555	26,024	22,673	3,351
Unconsummated acquisition costs	**828**	-	828	-	-	-
Depreciation & amortization	**6,694**	6,918	(224)	6,918	6,312	606
Other taxes	**4,909**	4,225	684	4,225	3,708	517
Other operating expenses	**39,010**	37,167	1,843	37,167	32,693	4,474
Total Operating Income	**$25,846**	$22,485	$3,361	$22,485	$19,733	$2,752

Heating Degree-Day (HDD) and Customer Analysis

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Heating degree-day data — Delmarva						
Actual HDD	**4,431**	4,504	(73)	4,504	3,931	573
10-year average HDD	**4,401**	4,376	25	4,376	4,372	4
Estimated gross margin per HDD	**$1,937**	$1,937	$0	$1,937	$2,013	($76)
Estimated dollars per residential customer added:						
Gross margin	**$375**	$372	$3	$372	$372	$0
Other operating expenses	**$103**	$106	($3)	$106	$111	($5)
Average number of residential customers						
Delmarva	**45,570**	43,485	2,085	43,485	40,535	2,950
Florida	**13,373**	13,250	123	13,250	12,663	587
Total	**58,943**	56,735	2,208	56,735	53,198	3,537

2008 Compared to 2007

Gross margin for the Company's natural gas segment increased by $5.2 million, or nine percent, and other operating expenses increased by $1.8 million, or five percent, for 2008. Of the total $5.2 million increase in gross margin, $1.7 million was generated from the natural gas transmission operation, $2.0 million from the natural gas distribution operations and $1.5 million from the natural gas marketing operation, as further explained below.

Natural Gas Transmission

The natural gas transmission operation achieved gross margin growth of $1.7 million, or eight percent, in 2008. Of the $1.7 million increase, $1.2 million was attributable to new transportation capacity contracts implemented in November 2007 and 2008. In 2009, the new transportation capacity contracts implemented in November 2008 are expected to generate additional gross margin of $823,000. In addition, the implementation of rate case settlement rates, effective September 1, 2007, contributed an additional $439,000 to gross margin in 2008. A further discussion of the FERC rate proceeding is provided in detail within "Rates and Other Regulatory Activities" section of Note O, "Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements. The remaining $61,000 increase to gross margin was primarily attributable to higher interruptible sales revenue, net of required margin-sharing.

The 2009 gross margin for the natural gas transmission operation will be impacted by the following construction projects:

- The remaining facilities to be constructed under the operation's multi-year system expansion will be placed into service in November 2009. These services will provide for 7,200 dts of firm service capacity per day and will generate $1.0 million of annualized gross margin. For the years 2009 and 2010, these facilities will contribute $169,300 and $846,700, respectively, to gross margin.
- On February 5, 2009, ESNG entered into a firm transportation service agreement with an industrial customer in Northern Delaware for the period of February 6, 2009 through October 31, 2009. Pursuant to this agreement, ESNG will provide firm transportation service for a maximum of 7,200 Dts and will recognize gross margin of

approximately $573,000 for this service. Subsequent to execution of this agreement, the two parties entered into a second Precedent Agreement for an additional 10,000 Dts of daily firm transportation service beginning November 1, 2009 and ending October 31, 2012. In conjunction with providing this service, ESNG expects to earn additional gross margin of approximately $1.1 million. For the years 2009 and 2010, these two agreements will contribute $753,900 and $1.1 million, respectively, to gross margin.

An increase of $669,000 in other operating expenses partially offset the increased gross margin. The factors contributing to the increase in other operating expenses included the following:

- Corporate overhead increased approximately $420,000 due to the allocation of the unconsummated acquisition costs and the higher costs previously discussed.
- The higher level of capital investment and adjusted property assessments by various jurisdictions caused increased property taxes of $311,000.
- Rent and utility expenses increased by $176,000 and $52,000, respectively, as a result of ESNG occupying new office facilities in January of 2008.
- Incentive compensation costs increased by $98,000 as a result of the improved operating results in 2008.
- Costs for corporate services increased approximately $97,000 as a result of increased information technology spending to improve the infrastructure, including system performance and disaster recovery. In addition, the Company increased its information technology support.
- Other operating expenses relating to various items increased by approximately $77,000.
- The Company experienced a decrease of $316,000 in pipeline integrity costs, compared to those which the Company incurred in 2007 to comply with federal pipeline integrity regulations, issued in May 2004.
- Depreciation expense and regulatory expense decreased by $110,000 and $136,000, respectively, in 2008 as a result of the 2007 rate case. As part of the rate case settlement that became effective September 1, 2007, the FERC approved a reduction in depreciation rates for ESNG. The impact of the lower depreciation rates was partially offset by the additional depreciation expense from higher plant balances produced by capital investments in 2007 and 2008. Also, the Company incurred regulatory expenses in the first nine months of 2007 associated with the FERC rate proceeding.

Natural Gas Distribution

Gross margin for the Company's natural gas distribution operations increased by $2.0 million, or five percent, for 2008 compared to 2007. Of the $2.0 million increase, $1.8 million was produced by the Delmarva natural gas distribution operations and $200,000 by the Florida natural gas distribution operations.

Contributing to the Delmarva distribution operations' increase of $1.8 million, or seven percent, in gross margin, were the following factors:

- The average number of residential customers on the Delmarva Peninsula increased by 2,085, or five percent, for 2008, and the Company estimates that these additional residential customers contributed approximately $850,000 to gross margin in 2008. The Company continues to see a slowdown in the new housing market as a result of unfavorable market conditions.
- Growth in commercial and industrial customers contributed $473,000 and $89,000, respectively, to gross margin in 2008.
- Interruptible services revenue, net of required margin-sharing, increased by $307,000 as customers took advantage of lower natural gas prices compared to prices for alternative fuels.
- The Company estimates that weather contributed $122,000 to gross margin, despite temperatures on the Delmarva Peninsula being two percent warmer in 2008. This amount differs from the $141,000 reduction of gross margin that the Company had expected from the warmer weather as a result of the month in which the heating degree day variance occurred.

- Partially offsetting these increases to gross margin was the negative impact of lower consumption per customer in 2008 compared to 2007. The Company estimates that lower consumption per customer reduced gross margin by $118,000. The lower consumption reflects customer conservation efforts in light of higher energy costs, more energy-efficient housing, and current economic conditions.
- The remaining $77,000 net increase to gross margin was attributable to various other items.

Gross margin for the Florida distribution operation increased by $200,000, or two percent, in 2008 compared to 2007. The higher gross margin for the period was attributable primarily to a one-percent growth in residential customers, an increase in non-residential customer volumes, and higher revenues from third-party natural gas marketers.

Other operating expenses for the natural gas distribution operations increased by $909,000 in 2008 compared to 2007. Among the key components producing this net increase were the following:

- Corporate overhead increased approximately $777,000 due to the allocation of the unconsummated acquisition costs and the higher costs previously discussed.
- Costs for corporate services increased approximately $420,000 as a result of increased information technology spending to improve the infrastructure, including system performance and disaster recovery. In addition, the Company increased its information technology support.
- Property taxes increased by $298,000 as a result of the Company's continued capital investments.
- Incentive compensation increased by $225,000 as the Delmarva and Florida operations experienced improved earnings compared to the prior year.
- Costs relating to outside services, such as legal fees and consulting costs, increased by $208,000 to support several new projects.
- Payroll and benefits costs for the Delmarva operations increased by $187,000 and $97,000, respectively, from annual salary increases, as compared to the previous year.
- Regulatory expenses increased by $126,000 as the natural gas distribution operations incurred costs associated with regulatory filings with their respective PSCs.
- Vehicle fuel and depreciation expense increased by $68,000 and $57,000, respectively, compared to the prior year as a result of rising costs of gasoline and diesel fuel, and higher depreciation rates for vehicles.
- Depreciation expense and asset removal costs decreased by $114,000 and $1.3 million, respectively, primarily as a result of the Delmarva operations' rate proceedings, which provided for lower depreciation allowances and lower asset removal cost allowances.
- Maintenance costs for the Florida operation decreased by $66,000, compared to 2007, when larger expenditures were required to comply with federal pipeline integrity regulations.
- Merchant payment fees decreased by $79,000, which resulted primarily from the Delmarva operations outsourcing the processing of credit card payments in April 2007.
- In addition, other operating expenses relating to various other items increased by approximately $5,000.

Natural Gas Marketing

Gross margin for the natural gas marketing operation increased by $1.5 million, or 91 percent, for 2008 compared to 2007. The increase in gross margin was due to enhanced sales contract terms, margins on spot sales of approximately $600,000 and a 26-percent growth in its customer base. The increased customer base contributed to a 41-percent increase in volumes sold in 2008. Other operating expenses increased by $264,000, which was attributable to higher incentive compensation incurred as a result of the improved operating results and increases in the allowance for uncollectible accounts that normally accompany customer growth; these expenses were offset slightly by lower payroll-related and benefit costs.

2007 Compared to 2006

Gross margin for the Company's natural gas segment increased by $7.2 million, or 14 percent, and other operating expenses increased by $4.5 million, or 14 percent, for 2007 compared to 2006. Of the total gross margin increase of $7.2

million, $3.9 million was generated by the natural gas transmission operation and $3.5 million was generated by the natural gas distribution operations. These increases were partially offset by a lower gross margin of $207,000 for the natural gas marketing operation, as further explained below.

Natural Gas Transmission

The natural gas transmission operation achieved gross margin growth of $3.9 million, or 22 percent, in 2007 compared to 2006. Of the $3.9 million increase, $3.3 million was attributable to transportation capacity contracts implemented in November 2006 and 2007. In addition, the implementation of rate case settlement rates, effective September 1, 2007, contributed an additional $563,000 to gross margin in 2007. The remaining $43,000 increase to gross margin in 2007 is attributable to other factors, such as higher interruptible sales. An increase of $2.3 million in other operating expenses partially offset the increased gross margin. The factors contributing to the increase in other operating expenses were as follows:

- Payroll and benefit costs increased by $282,000 and $90,000, respectively, as the operation increased staff to support compliance with new federal pipeline integrity regulations and to serve the additional growth. The new pipeline integrity regulations require the Company to assess at least 50 percent of the covered segments by December 17, 2007.
- ESNG also incurred an additional $385,000 of third-party costs to comply with the new federal pipeline integrity regulations previously discussed.
- The increased level of capital investment caused higher depreciation and asset removal costs of $371,000 and increased property taxes of $188,000.
- Corporate costs increased by $568,000 as the Company updated its annual corporate cost allocations based on a methodology accepted by the FERC.
- The increase in operating expenses for 2007 was magnified by the FERC's authorization, in July 2006, to defer certain pre-service costs of ESNG's Energylink Expansion Project ("E3 Project"), allowing the Company to treat such costs as a regulatory asset. The deferral of these costs resulted in the reduction of $190,000 in other operating expenses in 2006 for expenses incurred in 2005. Please refer to the "Rates and Other Regulatory Activities" section of Note O, "Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements further information on the E3 Project.
- Other operating expenses relating to various items increased collectively by approximately $226,000.

Natural Gas Distribution

Gross margin for the Company's natural gas distribution operations increased by $3.5 million, or eleven percent, for 2007 compared to 2006. The gross margin increases for the Delmarva and Florida natural gas distribution operations are further explained below.

The Delmarva distribution operations experienced an increase in gross margin of $3.4 million, or 16 percent. The significant items contributing to the increase in gross margin included the following:

- Continued residential customer growth contributed to the increase in gross margin. The average number of residential customers on the Delmarva Peninsula increased by 2,950, or seven percent, for 2007 compared to 2006, and the Company estimates that these additional residential customers contributed approximately $1.2 million to gross margin.
- Rate increases for both the Delaware and Maryland divisions generated an additional $848,000 in gross margin in 2007 compared to 2006. In October 2006, the Maryland PSC granted the Company a base rate increase, which resulted in a $693,000 period-over-period increase to gross margin in 2007. The Delaware division received approval from the Delaware Public Service Commission ("Delaware PSC") to implement temporary rates, subject to refund, which contributed an additional $155,000 to gross margin in 2007.
- The Company estimates that weather contributed $819,000 to gross margin in 2007 compared to 2006, as temperatures on the Delmarva Peninsula were 15 percent colder in 2007. This amount differs from the $1.1

million of additional gross margin that the Company had expected the colder weather to contribute as a result of the month in which the heating degree day variance occurred.

- The colder temperatures did not have a significant impact on the Maryland distribution operation's gross margin in 2007, because the operation's approved rate structure included a weather normalization adjustment mechanism. The weather normalization adjustment, implemented in October 2006, was designed to reduce excessive revenue swings caused by weather that is warmer or colder than normal.
- Growth in commercial and industrial customers contributed $224,000 and $102,000, respectively, to gross margin in 2007.
- Increased sales volumes to interruptible customers contributed $224,000 to gross margin in 2007.
- The remaining $31,000 increase in gross margin can be attributed to various other factors.

Gross margin for the Florida distribution operation increased by $88,000, or one percent, in 2007 compared to 2006. The higher gross margin, which resulted from an increase in residential customers, was partially offset by lower volumes sold to industrial customers. The operation experienced a five-percent growth in residential customers in 2007 compared to 2006, which provided for an additional $142,000 in gross margin. The Florida distribution operation also experienced a slowdown in the housing market in 2007.

Other operating expenses for the natural gas distribution operations increased by $2.0 million in 2007 compared to 2006. Among the key components of the increase were the following:

- Payroll costs increased by $110,000 as vacant positions in 2006 were filled in 2007 and new positions were added to serve the growth experienced by the operations.
- Health care costs increased by $177,000 as a result of additional personnel and a higher cost of claims.
- Incentive compensation increased by $229,000 in 2007 as the Delmarva operations experienced improved earnings and increased staffing levels.
- Depreciation and amortization expense, asset removal cost and property taxes increased by $316,000, $121,000 and $156,000, respectively, as a result of continued capital investments.
- The Florida distribution operation experienced increased expense of $227,000 in 2007 to maintain compliance with the new federal pipeline integrity regulations.
- Sales and advertising costs increased by $129,000 in 2007, primarily to promote energy conservation and customer awareness of the availability of natural gas service.
- Regulatory expenses increased by $113,000 as the Delaware and Maryland operations began expensing costs associated with their respective rate cases.
- The allowance for uncollectible accounts increased by $183,000 in 2007 due to increased revenues resulting from customer growth and colder temperatures.
- Merchant payment fees decreased by $116,000 as the Company's Delmarva operation outsourced the processing of credit card payments in April 2007.
- Other operating expenses relating to various other items increased by approximately $355,000.

Natural Gas Marketing

Gross margin for the natural gas marketing operation decreased by $207,000, or 11 percent, for 2007 compared to 2006. The decline in gross margin was primarily the result of increases in natural gas supply costs that PESCO was contractually unable to pass through to its customers. In addition, a shift in the market prevented PESCO from selling as much of its available capacity in 2007 as was sold during 2006. Other operating expenses for the marketing operation increased by $258,000 due primarily to increases in payroll and benefit costs, allowance for uncollectible accounts and corporate overhead costs, which were partially offset by lower expenses for consulting services.

Propane

The propane segment earned operating income of $1.6 million for 2008, $4.5 million for 2007, and $2.5 million for 2006, resulting in a decrease of $2.9 million, or 65 percent for 2008, and an increase of $2.0 million, or 78 percent for 2007.

Propane (in thousands)

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Revenue	$65,877	$62,838	$3,039	$62,838	$48,576	$14,262
Cost of sales	46,066	41,038	5,028	41,038	30,780	10,258
Gross margin	19,811	21,800	(1,989)	21,800	17,796	4,004
Operations & maintenance	15,111	14,594	517	14,594	12,823	1,771
Unconsummated acquisition costs	254	-	254	-	-	-
Depreciation & amortization	2,024	1,842	182	1,842	1,659	183
Other taxes	836	866	(30)	866	780	86
Other operating expenses	18,225	17,302	923	17,302	15,262	2,040
Total Operating Income	$1,586	$4,498	($2,912)	$4,498	$2,534	$1,964

Propane Heating Degree-Day (HDD) Analysis — Delmarva

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Heating degree-days						
Actual	4,431	4,504	(73)	4,504	3,931	573
10-year average	4,401	4,376	25	4,376	4,372	4
Estimated gross margin per HDD	$2,465	$1,974	$491	$1,974	$1,743	$231

2008 Compared to 2007

The period-over-period decrease in operating income was due primarily to the Delmarva propane distribution operation, which experienced a lower gross margin from inventory write-downs and marking-to-market its swap agreement, warmer weather on the Delmarva Peninsula, and lower sales volumes.

The gross margin decrease of $3.1 million for the Delmarva propane distribution operations was partially offset by higher gross margin of $181,000 for the Florida propane distribution operations and $901,000 for the propane wholesale and marketing operation, as further explained below:

Delmarva Propane Distribution

The Delmarva propane distribution operation's decrease in gross margin of $3.1 million resulted from the following:

- Gross margin decreased by $1.1 million in 2008, compared to 2007, primarily because of a $0.04 decrease in the average gross margin per retail gallon attributable to inventory write-downs of approximately $800,000 during 2008 in response to market prices below the Company's inventory price per gallon. This trend reverses when market prices of propane exceed the Company's average inventory price per gallon.
- Wholesale propane prices rose dramatically during the spring months of 2008, when they are traditionally falling. In efforts to protect the Company from the impact that additional price increases would have on our Pro-Cap (propane price cap) Plan that we offer to customers, the propane distribution operation entered into a swap agreement. By the end of the period, the market price of propane had plummeted well below the unit price in the swap agreement. As a result, the Company marked the agreement relating to the January 2009 and February 2009 gallons to market, which increased cost of sales by $939,000 in 2008. In January 2009, the Company terminated this swap agreement.
- Non-weather-related volumes sold in 2008 decreased by 1.2 million gallons, or five percent. This decrease in gallons sold reduced gross margin by approximately $867,000 for the Delmarva propane distribution operation. Factors contributing to this decrease in gallons sold included customer conservation and the timing of propane deliveries.

- Margins per gallon on the Pro-Cap plan for the last four months of 2008 recovered to prior year's levels with the exception of $113,000, despite the Company realizing a charge to cost of sales of $494,000 as the December gallons related to this plan were valued at current market prices.
- Temperatures on the Delmarva Peninsula were two percent warmer in 2008 compared to 2007, which contributed to a decrease of 248,000 gallons sold, or one percent. The Company estimates that the warmer weather and decreased volumes sold had a negative impact of approximately $180,000 on gross margin for the Delmarva propane distribution operation.
- Gross margin from miscellaneous fees, including items such as tank and meter rentals and marketing pricing programs, increased by $271,000.
- The remaining $172,000 net decrease in gross margin can be attributed to various other items.

Total other operating expenses increased by $503,000 for the Delmarva propane operations in 2008, compared to 2007. The significant items contributing to this increase are explained below:

- Corporate overhead increased by approximately $380,000 due to the allocation of the unconsummated acquisition costs and the higher costs previously discussed.
- Vehicle fuel and maintenance costs increased by $235,000 as a result of higher gasoline and diesel fuel costs and continued maintenance of our delivery vehicles.
- Costs for corporate services increased by approximately $120,000 as a result of increased information technology spending to improve the infrastructure, including system performance and disaster recovery. In addition, the Company increased its information technology support.
- Mains fees increased by $81,000 in 2008, compared to 2007, as a result of added Community Gas Systems ("CGS") customers. This expenditure will continue to increase as more CGS customers are added.
- Depreciation and amortization expense increased by $81,000 as a result of an increase in the Company's capital investments compared to the prior year.
- The allowance for uncollectible accounts increased by $65,000 due to increased revenues.
- Incentive compensation decreased by $387,000 as a result of the lower operating results in 2008.
- Lower expenses of $199,000 were incurred in 2008 for propane tank recertifications and maintenance as the Company incurred these costs in 2007 to maintain compliance with DOT standards, which require propane tanks or cylinders to be recertified twelve years from their date of manufacture and every five years thereafter.
- Other operating expenses relating to various items increased by approximately $127,000.

Florida Propane Distribution

The Florida propane distribution operation experienced an increase in gross margin of $181,000, or 15 percent, in 2008 compared to 2007. The higher gross margin resulted from increases of four percent and ten percent in the number of gallons sold to residential and commercial customers, respectively, combined with a higher average gross margin per retail gallon. Other operating expenses increased by $163,000 in 2008, compared to 2007, due primarily to increases in depreciation expense and the allowance for uncollectible accounts.

Propane Wholesale and Marketing

Gross margin for the Company's propane wholesale marketing operation increased by $901,000, or 38 percent, in 2008 compared to 2007. This increase reflects the operation capitalizing on a larger number of market opportunities that arose in 2008 due to price volatility in the propane wholesale market. This volatility created an opportunity for the operation to capture larger price-spreads between sales contracts and purchase contracts in addition to larger spreads between the market (spot) prices and forward propane prices. The increase in gross margin was partially offset by higher other operating expenses of $257,000, due primarily to higher incentive compensation associated with increased earnings and increased corporate costs associated with updating our annual corporate cost allocations.

2007 Compared to 2006

Operating income for the propane segment increased by $2.0 million to $4.5 million for 2007 compared to 2006. Gross

margin in the Delmarva propane distribution operations increased by $3.2 million, compared to 2006, due primarily to increases in the average retail margin per gallon and colder weather on the Delmarva Peninsula. Gross margin also increased in the Florida propane distribution operation and the Company's wholesale propane marketing operation by $100,000 and $677,000, respectively.

Delmarva Propane Distribution

The Delmarva propane distribution operation's increase in gross margin of $3.2 million, or 22 percent, resulted from the following:

- Gross margin increased by $1.1 million in 2007, compared to 2006, because of a $0.05 increase in the average gross margin per retail gallon. This increase occurs when market prices of propane exceed the Company's average inventory price per gallon and reverses when market prices move closer to the Company's average inventory price per gallon. Propane gross margin is also affected by changes in the Company's pricing of sales to its customers.
- Temperatures on the Delmarva Peninsula were 15 percent colder in 2007 compared to 2006, which contributed to the increase of 1.7 million retail gallons, or nine percent, sold during 2007. The Company estimates that the colder weather and increased volumes sold contributed $1.1 million to gross margin for the Delmarva propane distribution operation in 2007 compared to 2006.
- Non-weather related retail volumes sold in 2007 increased by 1.0 million gallons, or six percent. This increase in gallons sold contributed approximately $665,000 to gross margin for the Delmarva propane distribution operation compared to 2006. Contributing to the increase of gallons sold was the continued growth in the average number of CGS customers, which increased by 972 to a total count of 5,330, or a 22-percent increase, compared to 2006.
- Wholesale volumes sold in 2007 increased by 2.9 million gallons, or 70 percent, which contributed approximately $119,000 to gross margin for the Delmarva propane distribution operation.
- The remaining $216,000 increase in gross margin can be attributed to various other factors, including higher service sales and service fees.

Total other operating expenses increased by $1.5 million for the Delmarva propane operations in 2007, compared to the same period in 2006. The significant items contributing to this increase were:

- Increased operating expenses for 2007 were magnified by the Company's one-time recovery in 2006 of previously incurred costs of $387,000 from one of its propane suppliers in 2006. This recovery reimbursed the Company for fixed costs incurred in the removal of above-normal levels of petroleum by-products contained in approximately 75,000 gallons of propane that it purchased from the supplier. The recovery of these costs reduced other operating expenses in the first nine months of 2006.
- Incentive compensation increased by $361,000 as a result of the improved operating results in 2007.
- Health care costs increased by $119,000 as the Company experienced a higher cost of claims during the year.
- The operation incurred an additional $233,000 expense for propane tank recertifications and maintenance to maintain compliance with DOT standards, which require propane tanks or cylinders to be recertified twelve years from their date of manufacture and every five years thereafter.
- Mains fees increased by $100,000 as a result of new CGS customers.
- Depreciation and amortization expense increased by $107,000 as a result of increased capital investments.
- In addition, other operating expenses relating to various items increased by approximately $193,000.

Florida Propane Distribution

The Florida propane distribution operation experienced an increase in gross margin of $100,000, or nine percent, in 2007 compared to 2006, primarily because of an increase in the average gross margin per retail gallon and higher service margins. Other operating expenses in 2007, compared to 2006, increased by $223,000, primarily due to increases in payroll costs, insurance and depreciation expense.

Propane Wholesale and Marketing

Gross margin for the Company's propane wholesale marketing operation increased by $677,000, or 40 percent, in 2007 compared to 2006. This increase reflects the larger number of market opportunities that arose in 2007, due to price volatility in the propane wholesale market, which exceeded the level of price fluctuations experienced in 2006. The increase in gross margin was partially offset by higher other operating expenses of $318,000, due primarily to higher incentive compensation based on the increased earnings in 2007.

Advanced Information Services

The advanced information services segment provides domestic and international clients with information-technology-related business services and solutions for both enterprise and e-business applications. The advanced information services business contributed operating income of $695,000 for 2008, $836,000 for 2007, and $767,000 for 2006 resulting in a decrease of $141,000, or 17 percent for 2008, and an increase of $69,000, or nine percent for 2007.

Advanced Information Services (in thousands)

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Revenue	**$14,720**	$15,099	($379)	$15,099	$12,568	$2,531
Cost of sales	**8,033**	8,260	(227)	8,260	7,082	1,178
Gross margin	**6,687**	6,839	(152)	6,839	5,486	1,353
Operations & maintenance	**5,091**	5,225	(134)	5,225	4,119	1,106
Unconsummated acquisition costs	**60**	-	60	-	-	-
Depreciation & amortization	**175**	144	31	144	113	31
Other taxes	**666**	634	32	634	487	147
Other operating expenses	**5,992**	6,003	(11)	6,003	4,719	1,284
Total Operating Income	**$695**	$836	($141)	$836	$767	$69

2008 Compared to 2007

Gross margin for the advanced information services business declined by approximately $152,000, or two percent, and contributed operating income of $695,000 for 2008, a decrease of $141,000, or 17 percent, compared to 2007.

The period-over-period decrease in gross margin was attributable to a decrease of $610,000 in consulting revenues as higher average billing rates were not able to overcome a nine-percent decrease in the number of billable hours. The reduction in the number of billable hours is a result of current economic conditions in which information technology spending has broadly declined. The decrease in consulting revenues was partially offset with increased product sales and training revenues of $403,000 and $47,000, respectively. Given the current economic climate, BravePoint does not expect customers' information technology spending to return to historical levels in the foreseeable future.

Other operating expenses remained relatively unchanged in 2008 compared to the prior year. Absent the unconsummated acquisition costs of $60,000 allocated to the advanced information services segment, other operating expenses in 2008 would have been $71,000, a difference of one percent.

2007 Compared to 2006

The advanced information services business experienced gross margin growth of approximately $1.4 million, or 25 percent, and contributed operating income of $836,000 for 2007, an increase of $69,000, or nine percent, compared to 2006.

The period-over-period increase of gross margin resulted primarily from the following:

- A strong demand for the segment's consulting services in 2007 generated an increase of $1.9 million in consulting revenues as the number of billable hours increased by 15 percent; and
- An increase of $276,000 from Managed Database Administration services, which provide clients with professional database monitoring and support solutions during business hours or around the clock.

Other operating expenses increased by $1.3 million to $6.0 million in 2007, compared to $4.7 million for 2006. This increase in operating expenses in 2007 was attributable to the following:

- Payroll, incentive compensation and commissions, payroll taxes, benefit claims, and consulting expense accounted for $937,000 of the increase. These costs increased as a result of improved earnings and increased staffing levels to support the growth and customer demand experienced in 2007.
- An increase in the allowance for uncollectible accounts of $223,000 associated with a customer in the mortgage-lending business that filed for bankruptcy in the third quarter of 2007.
- In addition, other operating expenses relating to various minor items increased by approximately $140,000.

Other Operations and Eliminations

Other operations consist primarily of subsidiaries that own real estate leased to other Company subsidiaries. Eliminations are entries required to eliminate activities between business segments from the consolidated results. Other operations and eliminating entries contributed operating income of $352,000 for 2008, $295,000 for 2007, and $298,000 for 2006.

Other Operations & Eliminations (in thousands)

For the Years Ended December 31,	2008	2007	Increase (decrease)	2007	2006	Increase (decrease)
Revenue	$652	$622	$30	$622	$618	$4
Cost of sales	-	-	-	-	-	-
Gross margin	652	622	30	622	618	4
Operations & maintenance	116	109	7	109	96	13
Unconsummated acquisition costs	12	-	12	-	-	-
Depreciation & amortization	114	160	(46)	160	163	(3)
Other taxes	62	62	-	62	65	(3)
Other operating expenses	304	331	(27)	331	324	7
Operating Income — Other	348	291	57	291	294	(3)
Operating Income — Eliminations	4	4	-	4	4	-
Total Operating Income	$352	295	$57	$295	298	($3)

Other Income

Other income for the years 2008, 2007, and 2006, respectively, was $103,000, $291,000, and $189,000, which include interest income, late fees charged to customers and gains or losses from the sale of assets.

Interest Expense

Total interest expense for 2008 decreased by approximately $432,000, or seven percent, compared to 2007. The lower interest expense is primarily the result of the following:

- Interest on long-term debt decreased by $263,000 in 2008 compared to 2007 as the Company reduced its average long-term debt balance and its weighted average interest rate. The Company's average long-term debt balance during 2008 was $76.2 million, with a weighted average interest rate of 6.40 percent, compared to $76.5 million, with a weighted average interest rate of 6.71 percent, for the same period in 2007.
- Other interest charges decreased by $127,000 as higher amounts of interest capitalized were partially offset by interest accrued on pending customer refunds.

- Interest on short-term borrowings decreased by $42,000 in 2008 compared to 2007, as the weighted average interest rate was nearly 2.7 percentage points lower in 2008 offsetting a $17.7 million increase in the Company's average short-term borrowing balance. The Company's average short-term borrowing during 2008 was $38.3 million, with a weighted average interest rate of 2.79 percent, compared to $20.6 million, with a weighted average interest rate of 5.46 percent, for 2007.

Total interest expense for 2007 increased approximately $816,000, or 14 percent, compared to 2006. The higher interest expense was a result of the following developments:

- As a result of fewer capital projects in 2007 compared to 2006, the Company capitalized $469,000 less interest on debt in 2007 associated with ongoing capital projects.
- The Company's average long-term debt balance during 2007 was $76.5 million, with a weighted average interest rate of 6.71 percent, compared to $67.2 million, with a weighted average interest rate of 6.98 percent, for 2006. The large year-over-year increase in the average long-term debt balance was the result of a debt placement of $20 million in Senior Notes at 5.5 percent in October 2006 with three institutional investors (The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company and United Omaha Life Insurance Company).
- The average short-term borrowing balance in 2007 decreased by $6.3 million to $20.6 million compared to an average balance of $26.9 million in 2006. The weighted average interest rates for short-term borrowing of 5.46 percent for 2007 and 5.47 percent for 2006 had minimum impact on the change in short-term borrowing expense.

Income Taxes

Income tax expense was $8.8 million for 2008, $8.6 million for 2007, and $7.0 million for 2006. The increases in income tax expense reflect the increased taxable income in each period. The effective federal income tax rate for each of the three years 2008, 2007, and 2006 was 35 percent, and the Company realized a benefit of $235,000, $226,000, and $220,000 in those years, respectively, relating to tax deductions for dividends paid on Company stock held in the Employee Stock Ownership Plan.

Discontinued Operations

During 2007, Chesapeake decided to close its distributed energy services subsidiary, OnSight, which had experienced operating losses since its inception in 2004. OnSight was previously reported as part of the Company's Other Business segment. The results of operations for OnSight have been reclassified to discontinued operations and shown net of tax for all periods presented. The discontinued operations experienced a net loss of $20,000 for 2007, compared to a net loss of $241,000 for 2006. The Company did not have any discontinued operations in 2008.

Liquidity and Capital Resources

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to investment in new plant and equipment and retirement of outstanding debt. The Company relies on cash generated from operations, short-term borrowing, and other sources to meet normal working capital requirements and to finance capital expenditures. During 2008, net cash provided by operating activities was $28.5 million, cash used by investing activities was $31.2 million, and cash provided by financing activities was $1.7 million.

During 2007, net cash provided by operating activities was $25.7 million, cash used by investing activities was $31.3 million, and cash provided by financing activities was $3.7 million.

On December 11, 2008, the Board of Directors authorized the Company to borrow up to $65.0 million of short-term debt, as required, from various banks and trust companies under short-term lines of credit. As of December 31, 2008, Chesapeake had five unsecured bank lines of credit with three financial institutions, for a total of $100.0 million, none of which requires compensating balances. These bank lines are available to provide funds for the Company's short-term

cash needs to meet seasonal working capital requirements and to fund temporarily portions of its capital expenditures. In response to the instability and volatility of the financial markets during 2008, the Company solidified its lines of credit by converting $40.0 million of available credit under uncommitted lines to committed lines of credit. At December 31, 2008, two of the bank lines, totaling $55.0 million, are committed. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks. The outstanding balance of short-term borrowing at December 31, 2008 and 2007 was $33.0 million and $45.7 million, respectively. The level of short-term debt was reduced in 2008 with funds provided from the placement of $30 million of 5.93 percent Unsecured Senior Notes in October 2008.

Chesapeake has budgeted $34.8 million for capital expenditures during 2009. This amount includes $21.6 million for natural gas distribution, $8.8 million for natural gas transmission, $3.6 million for propane distribution and wholesale marketing, $250,000 for advanced information services and $507,000 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 to replace equipment. The advanced information services expenditures are for computer hardware, software and related equipment. The other category includes general plant, computer software and hardware. The Company expects to fund the 2009 capital expenditures program from short-term borrowing, cash provided by operating activities, and other sources. 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 changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital.

Capital Structure

The following presents our capitalization as of December 31, 2008 and 2007:

December 31,	**2008**		2007	
	(In thousands, except percentages)			
Long-term debt, net of current maturities	**$86,422**	**41%**	$63,256	35%
Stockholders' equity	**$123,073**	**59%**	$119,576	65%
Total capitalization, excluding short-term debt	**$209,495**	**100%**	$182,832	100%

As of December 31, 2008, common equity represented 59 percent of total capitalization, compared to 65 percent at December 31, 2007.

The following presents our capitalization as of December 31, 2008 and 2007, if short-term borrowing and the current portion of long-term debt were included in capitalization:

December 31,	**2008**		2007	
	(In thousands, except percentages)			
Short-term debt	**$33,000**	**13%**	$45,664	19%
Long-term debt, including current maturities	**$93,079**	**38%**	$70,912	30%
Stockholders' equity	**$123,073**	**49%**	$119,576	51%
Total capitalization, including short-term debt	**$249,152**	**100%**	$236,152	100%

If short-term borrowing and the current portion of long-term debt were included in capitalization, total capitalization increased by $13.0 million in 2008. The increased capitalization was primarily used to fund a portion of the $30.8 million of property, plant, and equipment added in 2008 and for other general working capital. In addition, if short-term borrowing and the current portion of long-term debt were included in total capitalization, the equity component of the Company's capitalization would have been 49 percent at December 31, 2008, compared to 51 percent at December 31, 2007.

Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access 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 its investors.

Shelf Registration

In July 2006, the Company filed a registration statement on Form S-3 with the SEC to issue up to $40.0 million in new common stock and/or debt securities. The registration statement was declared effective by the SEC in November 2006. In November 2006, we sold 690,345 shares of common stock, which included the underwriter's exercise of an over-allotment option of 90,045 shares, under this registration statement, generating net proceeds of $19.7 million. The net proceeds from the sale were used for general corporate purposes, including financing of capital expenditures, repayment of short-term debt, and funding working capital requirements. At December 31, 2008 and 2007, the Company had approximately $20.0 million remaining under this registration statement.

In December 2008, the Company filed a registration statement on Form S-3 with the SEC relating to the registration of 631,756 shares of our common stock under our Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"). The registration statement was declared effective by the SEC in January 2009 and replaces the prior registration in place for the Plan that had previously expired.

Cash Flows Provided by Operating Activities

Our cash flows provided by (used in) operating activities were as follows:

For the Years Ended December 31,	2008	2007	2006
Net income	**$13,607,259**	$13,197,710	$10,506,525
Non-cash adjustments to net income	**23,024,317**	15,723,829	11,386,670
Changes in assets and liabilities	**(8,089,187)**	(3,239,655)	8,255,699
Net cash from operating activities	**$28,542,389**	$25,681,884	$30,148,894

Period-over-period changes in our cash flows from operating activities are attributable primarily to changes in net income, depreciation, deferred taxes and working capital. Changes in working capital are determined by a variety of factors, including weather, the prices of natural gas and propane, the timing of customer collections, payments of natural gas and propane purchases, and deferred gas cost recoveries.

The Company generates a large portion of its annual net income and subsequent increases in our accounts receivable in the first and fourth quarters of each year due to significant volumes of natural gas and propane delivered by our natural gas and propane distribution operations to customers during the peak heating season. In addition, our natural gas and propane inventories, which usually peak in the fall months, are largely drawn down in the heating season and provide a source of cash as the inventory is used to satisfy winter sales demand.

Cash Flows From Operating Activities

In 2008, our net cash flow provided by operating activities was $28.5 million, an increase of $2.9 million compared to 2007. The increase was due primarily to the following:

- Net cash flows from changes in accounts receivable and accounts payable were primarily due to the timing of collections and payments of trading contracts entered into by the Company's propane wholesale and marketing operation;
- Timing of payments for the purchase of propane inventory, natural gas purchases injected into storage, and the relative decline in the unit price of these commodities;
- Reduction in regulatory liabilities, which resulted primarily from lower deferred gas cost recoveries in our natural gas distribution operations as the price of natural gas declined in the second half of 2008;

- Reduced payments for income taxes payable as a result of higher tax deductions provided by the 2008 Economic Stimulus Act; and
- Cash flows provided by non-cash adjustments for deferred income taxes. The increase in deferred income taxes is the result of higher book-to-tax timing differences during the period that were generated by the Economic Stimulus Act, which authorized bonus depreciation for certain assets.

In 2007, net cash flow provided by operating activities was $25.7 million, a decrease of $4.4 million from 2006. The 2007 operating cash flows reflect the favorable timing of payments for accounts payable and accrued liabilities, which increased operating cash flow by $22.1 million. In addition, increased net income and favorable non-cash adjustments, primarily depreciation expense, contributed to the increase in operating cash flow. Partially offsetting these increases in operating cash flow was an increase in accounts receivable of $28.2 million associated with increased revenues and the timing of invoicing by our propane wholesale and marketing operation.

Cash Flows Used in Investing Activities

Net cash flows used in investing activities totaled $31.2 million, $31.3 million, and $48.9 million during fiscal years 2008, 2007, and 2006, respectively.

- Cash utilized for capital expenditures was $30.8 million, $31.3 million, and $48.9 million for 2008, 2007, and 2006, respectively. Additions to property, plant and equipment in 2008 were primarily for natural gas transmission ($10.5 million), natural gas distribution ($15.1 million), propane distribution ($3.1 million), advanced information services ($672,000) and other operations ($1.4 million). In both 2008 and 2007, the natural gas distribution expenditures were used primarily to fund expansion and facilities improvements; in both periods, the natural gas transmission capital expenditures related primarily to expanding the Company's transmission system.
- The Company's environmental expenditures exceeded amounts recovered through rates charged to customers in 2008, 2007 and 2006 by $480,000, $228,000 and $16,000, respectively.
- Sales of property, plant, and equipment generated $205,000 of cash in 2007.

Cash Flows Provided by Financing Activities

Cash flows provided by financing activities totaled $1.7 million during 2008, $3.7 million during 2007, and $20.7 million during 2006. Significant financing activities included the following:

- In October 2008, the Company completed the placement of $30.0 million of 5.93 percent Unsecured Senior Notes; in October 2006, the Company also completed the placement of $20.0 million of 5.5 percent Unsecured Senior Notes.
- During 2008 and 2006, the Company reduced its short-term debt by $12.0 million and $8.0 million, respectively. During 2007, net borrowing of short-term debt increased by $18.7 million, primarily to support our capital investments.
- The Company repaid $7.7 million of long-term debt during 2008 and 2007, compared with $4.9 million during 2006.
- During 2008, the Company paid $8.0 million in cash dividends, compared with dividend payments of $7.0 million in 2007, and $6.0 million for 2006. The increase in dividends paid in 2008 compared to 2007 reflects the growth in the annualized dividend rate from $1.18 per share in 2007 to $1.22 per share in 2008. The dividends paid in 2007, compared to 2006 reflects both growth in the annualized dividend rate, from $1.16 per share during 2006 to $1.18 per share during 2007, and the increase in shares outstanding following the issuance of additional shares of common stock in the fourth quarter of 2006.

- In November 2006, the Company sold 690,345 shares of common stock, which included the underwriter's exercise of an over-allotment option of 90,045 shares, pursuant to a shelf registration statement declared effective in November 2006, generating net proceeds of $19.7 million.
- In August 2006, the Company paid cash of $435,000, in lieu of issuing shares of the Company's common stock, for the 30,000 stock warrants outstanding at December 31, 2005.

Contractual Obligations

We have the following contractual obligations and other commercial commitments as of December 31, 2008:

	Payments Due by Period				
Contractual Obligations	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
Long-term debt [1]	$6,656,364	$14,403,636	$13,454,545	$58,564,091	$93,078,636
Operating leases [2]	770,329	1,217,087	929,756	2,446,248	5,363,420
Purchase obligations [3]					
Transmission capacity	8,881,750	22,168,145	10,162,156	48,665,180	89,877,231
Storage — Natural Gas	1,507,998	4,145,743	2,719,878	1,707,063	10,080,682
Commodities	31,597,588	57,545	-	-	31,655,133
Forward purchase contracts — Propane [4]	10,181,630	-	-	-	10,181,630
Unfunded benefits [5]	336,637	1,392,409	659,454	1,810,947	4,199,447
Funded benefits [6]	519,319	120,615	60,308	1,396,143	2,096,385
Total Contractual Obligations	**$60,451,615**	**$43,505,180**	**$27,986,097**	**$114,589,672**	**$246,532,564**

[1] Principal payments on long-term debt, see Note H, "Long-Term Debt," in the Notes to the Consolidated Financial Statements for additional discussion of this item. The expected interest payments on long-term debt are $5.7 million, $10.0 million, $8.0 million and $13.1 million, respectively, for the periods indicated above. Expected interest payments for all periods total $36.8 million.

[2] See Note J, "Lease Obligations," in the Notes to the Consolidated Financial Statements for additional discussion of this item.

[3] See Note N, "Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements for further information.

[4] The Company has also entered into forward sale contracts. See "Market Risk" of the Management's Discussion and Analysis for further information.

[5] The Company has recorded long-term liabilities of $4.6 million at December 31, 2008 for unfunded post-retirement benefit plans. The amounts specified in the table are based on expected payments to current retirees and assumes a retirement age of 62 for currently active employees. There are many factors that would cause actual payments to differ from these amounts, including early retirement, future health care costs that differ from past experience and discount rates implicit in calculations.

[6] The Company has recorded long-term liabilities of $6.5 million at December 31, 2008 for funded benefits. These liabilities have been funded using a Rabbi Trust and an asset in the same amount is recorded under Investments on the Balance Sheet. The defined benefit pension plan was closed to new participants on January 1, 1999 and participants in the plan on that date were given the option to leave the plan. See Note K, "Employee Benefit Plans," in the Notes to the Consolidated Financial Statements for further information on the plan. The Company expects to contribute $450,000 to the plan in 2009. Additional contributions may be required based on the actual return earned by the plan assets and other actuarial assumptions, such as the discount rate and long-term expected rate of return on plan assets.

Off-Balance Sheet Arrangements

The Company has issued corporate guarantees to certain vendors of its subsidiaries, primarily its propane wholesale marketing subsidiary and its natural gas supply management subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. None of these subsidiaries has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in the Consolidated Financial Statements when incurred. The aggregate amount guaranteed at December 31, 2008 was $22.2 million, with the guarantees expiring on various dates in 2009.

In addition to the corporate guarantees, the Company has issued a letter of credit to its primary insurance company for $775,000, which expires on May 31, 2009. The letter of credit is provided as security to satisfy the deductibles under the Company's various insurance policies. There have been no draws on this letter of credit as of December 31, 2008.

Rate Filings and Other Regulatory Activities

The Company's natural gas distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC; ESNG is subject to regulation by the FERC. At December 31, 2008, Chesapeake was involved in rate filings and/or regulatory matters in each of the jurisdictions in which it operates. Each of these rate filings or regulatory matters is fully described in Note O, "Other Commitments and Contingencies," to the Consolidated Financial Statements.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at three environmental sites (see Note N 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 changes in interest rates. The Company's long-term debt consists of fixed-rate senior notes and convertible debentures (see Note I to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of the Company's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of long-term debt, including current maturities, was $93.1 million at December 31, 2008, as compared to a fair value of $92.3 million, based on a discounted cash flow methodology that incorporates a market interest rate that is based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, and risk profile. The Company evaluates whether to refinance existing debt or permanently refinance 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 four million gallons (including leased storage and rail cars) 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. To mitigate the impact of price fluctuations, the Company has adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges of its inventory. At December 31, 2008, the propane distribution operation had entered into a swap agreement to protect the Company from the impact of price increases on the Pro-Cap Plan that we offer to customers. The Company considered this agreement to be an economic hedge that did not qualify for hedge accounting as described in SFAS No. 133. At the end of 2008, the market price of propane, valued using broker or dealer quotations, or market transactions in either the listed or OTC markets, dropped below the unit price in the swap agreement. As a result of the price drop, the Company marked the January and February gallons in the agreement to market, which resulted in an increase to cost of sales of $939,000. The Company subsequently terminated the swap agreement in January 2009. The Company did not enter into a similar agreement in 2007.

The Company's propane wholesale marketing operation is a party to natural gas liquids forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane wholesale marketing operation purchase or sell natural gas liquids at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of natural gas liquids to the Company or the counter-party or "booking out" the transaction. Booking out is a procedure for financially settling a contract in lieu of 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 or receipt of a net amount equal to the difference between the current market price of the futures contract and the original contract price; however, they may also be settled by physical receipt or delivery of propane.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for natural gas liquids deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is 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 the Company's oversight officials daily. In addition, the Risk Management Committee reviews periodic reports on markets and the credit risk of counter-parties, 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 December 31, 2008 and 2007 is presented in the following tables.

At December 31, 2008	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	10,626,000	$0.5450 — $1.9100	$0.9984
Purchase	9,949,800	$0.7000 — $1.9600	$1.0233

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire the first quarter of 2009.

At December 31, 2007	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	30,941,400	$0.8925 — $1.6025	$1.3555
Purchase	30,954,000	$0.8700 — $1.6000	$1.3498

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2008.

At December 31, 2008 and 2007, the Company marked these forward contracts to market, using broker or dealer quotations, or market transactions in either the listed or OTC markets, which resulted in the following assets and liabilities:

December 31,	2008	2007
(in thousands)		
Marked-to-market energy assets	$4,482	$7,812
Marked-to-market energy liabilities	$3,052	$7,739

The Company's natural gas distribution and marketing operations have entered into agreements with natural gas suppliers to purchase natural gas for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives in SFAS No. 133 or are considered "normal purchases and sales" under SFAS No. 138 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 can use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers may convert to oil to satisfy their fuel requirements, and our interruptible

sales volumes may decline because oil prices are lower than the price of natural gas. Oil prices, as well as the prices of electricity and other fuels, fluctuate 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 sides of this business to compete with alternative fuel price fluctuations. As a result of the transmission operation's conversion to open access and the Florida gas distribution division's restructuring of its services, these businesses have shifted from providing bundled transportation and sales service to providing only transportation and contract storage services.

The Company's natural gas distribution operations in Delaware, Maryland and Florida offer unbundled transportation services to certain commercial and industrial customers. In 2002, the Florida operation extended such service to residential customers. With such transportation service available on the Company's distribution systems, the Company is competing with third-party suppliers to sell gas to industrial customers. With respect to unbundled transportation services, the Company's competitors include interstate transmission companies, if the distribution customers are located close enough to a transmission company's pipeline to make connections economically feasible. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the Company's distribution operations in this manner. In certain situations, the Company's distribution operations may adjust services and rates for these customers to retain their business. The Company expects to continue to expand the availability of unbundled transportation service to additional classes of distribution customers in the future. The Company has also established a natural gas sales and supply management operation in Florida, Delaware and Maryland to provide such service to customers eligible for unbundled transportation services.

The Company's propane distribution operations compete with several other propane distributors in their respective geographic markets, primarily on the basis of service and price, emphasizing responsive and reliable service. Our competitors generally include local outlets of national distributors and local independent distributors, whose proximity to customers entails lower costs to provide service. Propane competes with electricity as an energy source, because it is typically less expensive than electricity, based on equivalent BTU value. Propane also competes with home heating oil as an energy source. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas served by natural gas pipeline or distribution systems.

The propane wholesale marketing operation competes against various regional and national marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages.

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, and could adversely affect the markets for the products and services offered by these businesses. This segment competes on the basis of technological expertise, reputation and price.

Inflation

Inflation affects the cost of supply, labor, products and services required for operations, 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. In the Company's regulated natural gas distribution operations, 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 its regulated operations and closely monitors 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 Utilities Corporation has made statements in this Form 10-K that are considered to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not matters of historical fact and are typically identified by words such as, but not limited to, "believes," "expects," "intends," "plans," and similar expressions, or future or conditional verbs such as "may," "will," "should," "would," and "could." These statements relate to matters such as customer growth, changes in revenues or gross margins, capital expenditures, environmental remediation costs, regulatory trends and decisions, market risks associated with our propane operations, the competitive position of the Company, inflation, and other matters. It is important to understand that these forward-looking statements are not guarantees; rather, they are subject to certain risks, uncertainties and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Such factors include, but are not limited to:

- the temperature sensitivity of the natural gas and propane businesses;
- the effects of spot, forward, futures market prices, and the Company's use of derivative instruments on the Company's distribution, wholesale marketing and energy trading businesses;
- the amount and availability of natural gas and propane supplies;
- the access to interstate pipelines' transportation and storage capacity and the construction of new facilities to support future growth;
- the effects of natural gas and propane commodity price changes on the operating costs and competitive positions of our natural gas and propane distribution operations;
- the impact that declining propane prices may have on the valuation of our propane inventory;
- third-party competition for the Company's unregulated and regulated businesses;
- changes in federal, state or local regulation and tax requirements, including deregulation;
- changes in technology affecting the Company's advanced information services segment;
- changes in credit risk and credit requirements affecting the Company's energy marketing subsidiaries;
- the effects of accounting changes;
- changes in benefit plan assumptions, return on plan assets, and funding requirements;
- cost of compliance with environmental regulations or the remediation of environmental damage;
- the effects of general economic conditions, including interest rates, on the Company and its customers;
- the impact of the volatility in the financial and credit markets on the Company's ability to access credit;
- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues;
- the ability of the Company to construct facilities at or below estimated costs;
- the Company's ability to obtain the rate relief and cost recovery requested from utility regulators and the timing of the requested regulatory actions;
- the Company's ability to obtain necessary approvals and permits from regulatory agencies on a timely basis;
- the impact of inflation on the results of operations, cash flows, financial position and on the Company's planned capital expenditures;
- inability to access the financial markets to a degree that may impair future growth; and
- operating and litigation risks that may not be covered by insurance.

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 SUPPLEMENTARY DATA.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, Chesapeake's management conducted an evaluation of the effectiveness of its internal control over financial reporting based on the criteria established in a report entitled "Internal Control — Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Chesapeake's management has evaluated and concluded that Chesapeake's internal control over financial reporting was effective as of December 31, 2008.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

We have audited the accompanying consolidated balance sheets of Chesapeake Utilities Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, cash flows and income taxes for the years then ended. Chesapeake Utilities Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Utilities Corporation and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We also have audited the adjustments to the 2006 consolidated financial statements to retrospectively reflect the discontinued operations described in Note B. In our opinion, such adjustments were appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2006 consolidated financial statements of Chesapeake Utilities Corporation other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2006 consolidated financial statements taken as a whole.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Chesapeake Utilities Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2009 expressed an unqualified opinion.

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Chesapeake Utilities Corporation

In our opinion, the consolidated statements of income, cash flows, stockholders' equity and income taxes for the year ended December 31, 2006, before the effects of the adjustments to retrospectively reflect the discontinued operations described in Note B, present fairly, in all material respects, the results of operations and cash flows of Chesapeake Utilities Corporation and its subsidiaries for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America (the 2006 financial statements before the effects of the adjustments discussed in Note B are not presented herein). In addition, in our opinion, the financial statement schedule for the year ended December 31, 2006, presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements before the effects of the adjustments described above. These financial statements and 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 audit. We conducted our audit, before the effects of the adjustments described above, of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note L to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans, effective December 31, 2006.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect the discontinued operations described in Note B and accordingly, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by other auditors.

/S/ PRICEWATERHOUSECOOPERS LLP
PricewaterhouseCoopers LLP
Boston, MA
March 13, 2007

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

For the Twelve Months Ended December 31,	2008	2007	2006
Operating Revenues	**$291,443,477**	$258,286,495	$231,199,565
Operating Expenses			
Cost of sales, excluding costs below	**200,643,518**	170,848,211	155,809,747
Operations	**43,475,794**	42,242,218	36,612,683
Unconsummated acquisition costs	**1,152,844**	-	-
Maintenance	**2,215,123**	2,235,605	2,161,177
Depreciation and amortization	**9,004,911**	9,060,185	8,243,715
Other taxes	**6,472,353**	5,786,694	5,040,306
Total operating expenses	**262,964,543**	230,172,913	207,867,628
Operating Income	**28,478,934**	28,113,582	23,331,937
Other income, net of other expenses	**103,039**	291,305	189,093
Interest charges	**6,157,552**	6,589,639	5,773,993
Income Before Income Taxes	**22,424,421**	21,815,248	17,747,037
Income taxes	**8,817,162**	8,597,461	6,999,072
Income from Continuing Operations	**13,607,259**	13,217,787	10,747,965
Loss from discontinued operations, net of tax benefit of $0, $10,898 and $162,510	**-**	(20,077)	(241,440)
Net Income	**$13,607,259**	$13,197,710	$10,506,525
Weighted Average Common Shares Outstanding:			
Basic	**6,811,848**	6,743,041	6,032,462
Diluted	**6,927,483**	6,854,716	6,155,131
Earnings Per Share of Common Stock:			
Basic			
From continuing operations	**$2.00**	$1.96	$1.78
From discontinued operations	**-**	-	(0.04)
Net Income	**$2.00**	$1.96	$1.74
Diluted			
From continuing operations	**$1.98**	$1.94	$1.76
From discontinued operations	**-**	-	(0.04)
Net Income	**$1.98**	$1.94	$1.72
Cash Dividends Declared Per Share of Common Stock:	**$1.21**	$1.18	$1.16

Consolidated Statements of Cash Flows

For the Years Ended December 31,	2008	2007	2006
Operating Activities			
Net Income	**$13,607,259**	$13,197,710	$10,506,525
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	**9,004,911**	9,060,185	8,243,715
Depreciation and accretion included in other costs	**2,239,018**	3,336,506	3,102,066
Deferred income taxes, net	**11,441,660**	1,831,030	(408,533)
Gain on sale of assets	**-**	(204,882)	-
Unrealized (gain) loss on commodity contracts	**(1,146,486)**	(170,465)	37,110
Unrealized (gain) loss on investments	**509,084**	(122,819)	(151,952)
Employee benefits and compensation	**151,910**	1,004,273	(158,825)
Share based compensation	**820,175**	989,945	709,789
Other, net	**4,045**	56	13,300
Changes in assets and liabilities:			
Sale (purchase) of investments	**(200,603)**	229,125	(177,990)
Accounts receivable and accrued revenue	**19,410,552**	(28,189,132)	9,705,860
Propane inventory, storage gas and other inventory	**(1,729,641)**	1,193,336	354,764
Regulatory assets	**410,989**	(344,680)	2,498,954
Prepaid expenses and other current assets	**(1,182,142)**	(1,185,829)	(261,017)
Other deferred charges	**(153,005)**	(2,477,879)	(231,822)
Long-term receivables	**207,324**	83,653	137,101
Accounts payable and other accrued liabilities	**(15,139,134)**	22,130,049	(11,434,370)
Income taxes receivable	**(6,155,239)**	(158,556)	1,800,913
Accrued interest	**158,154**	33,112	273,672
Customer deposits and refunds	**(502,479)**	2,534,655	2,361,265
Accrued compensation	**(174,946)**	946,099	(721,289)
Regulatory liabilities	**(3,107,401)**	2,124,091	2,824,068
Other liabilities	**68,384**	(157,699)	1,125,590
Net cash provided by operating activities	**28,542,389**	25,681,884	30,148,894
Investing Activities			
Property, plant and equipment expenditures	**(30,755,845)**	(31,277,390)	(48,845,828)
Proceeds from sale of assets	**-**	204,882	-
Environmental expenditures	**(479,799)**	(227,979)	(15,549)
Net cash used by investing activities	**(31,235,644)**	(31,300,487)	(48,861,377)
Financing Activities			
Common stock dividends	**(7,956,843)**	(7,029,821)	(5,982,531)
Issuance of stock for Dividend Reinvestment Plan	**28,541**	299,436	321,865
Stock issuance	**-**	-	19,698,509
Cash settlement of warrants	-	-	(434,782)
Change in cash overdrafts due to outstanding checks	**(683,836)**	(541,052)	49,047
Net borrowing (repayment) under line of credit agreements	**(11,980,108)**	18,651,055	(7,977,347)
Proceeds from issuance of long-term debt	**29,960,518**	-	19,968,104
Repayment of long-term debt	**(7,656,623)**	(7,656,580)	(4,929,674)
Net cash provided by financing activities	**1,711,649**	3,723,038	20,713,191
Net Increase (Decrease) in Cash and Cash Equivalents	**(981,606)**	(1,895,565)	2,000,708
Cash and Cash Equivalents — Beginning of Period	**2,592,801**	4,488,366	2,487,658
Cash and Cash Equivalents — End of Period	**$1,611,195**	$2,592,801	$4,488,366

Supplemental Cash Flow Disclosures (see Note D)

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

Consolidated Balance Sheets

Assets	December 31, 2008	December 31, 2007
Property, Plant and Equipment		
Natural gas	**$316,124,761**	$289,706,066
Propane	**51,827,293**	48,506,231
Advanced information services	**1,439,390**	1,157,808
Other plant	**10,815,345**	8,567,833
Total property, plant and equipment	**380,206,789**	347,937,938
Less: Accumulated depreciation and amortization	**(101,017,551)**	(92,414,289)
Plus: Construction work in progress	**1,481,448**	4,899,608
Net property, plant and equipment	**280,670,686**	260,423,257
Investments	**1,600,790**	1,909,271
Current Assets		
Cash and cash equivalents	**1,611,195**	2,592,801
Accounts receivable (less allowance for uncollectible accounts of $1,159,014 and $952,074, respectively)	**52,905,447**	72,218,191
Accrued revenue	**5,167,666**	5,265,474
Propane inventory, at average cost	**5,710,673**	7,629,295
Other inventory, at average cost	**1,479,249**	1,280,506
Regulatory assets	**826,009**	1,575,072
Storage gas prepayments	**9,491,690**	6,042,169
Income taxes receivable	**7,442,921**	1,237,438
Deferred income taxes	**1,577,805**	2,155,393
Prepaid expenses	**4,679,368**	3,496,517
Mark-to-market energy assets	**4,482,473**	7,812,456
Other current assets	**146,820**	146,253
Total current assets	**95,521,316**	111,451,565
Deferred Charges and Other Assets		
Goodwill	**674,451**	674,451
Other intangible assets, net	**164,268**	178,073
Long-term receivables	**533,356**	740,680
Regulatory assets	**2,806,195**	2,539,235
Other deferred charges	**3,823,448**	3,640,480
Total deferred charges and other assets	**8,001,718**	7,772,919
Total Assets	**$385,794,510**	$381,557,012

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

Consolidated Balance Sheets

Capitalization and Liabilities	December 31, 2008	December 31, 2007
Capitalization		
Stockholders' equity		
Common Stock, par value $0.4867 per share (authorized 12,000,000 shares)	**$3,322,668**	$3,298,473
Additional paid-in capital	**66,680,696**	65,591,552
Retained earnings	**56,817,921**	51,538,194
Accumulated other comprehensive loss	**(3,748,093)**	(851,674)
Deferred compensation obligation	**1,548,507**	1,403,922
Treasury stock	**(1,548,507)**	(1,403,922)
Total stockholders' equity	**123,073,192**	119,576,545
Long-term debt, net of current maturities	**86,422,273**	63,255,636
Total capitalization	**209,495,465**	182,832,181
Current Liabilities		
Current portion of long-term debt	**6,656,364**	7,656,364
Short-term borrowing	**33,000,000**	45,663,944
Accounts payable	**40,202,280**	54,893,071
Customer deposits and refunds	**9,534,441**	10,036,920
Accrued interest	**1,023,658**	865,504
Dividends payable	**2,082,267**	1,999,343
Accrued compensation	**3,304,736**	3,400,112
Regulatory liabilities	**3,227,337**	6,300,766
Mark-to-market energy liabilities	**3,052,440**	7,739,261
Other accrued liabilities	**2,967,905**	2,500,542
Total current liabilities	**105,051,428**	141,055,827
Deferred Credits and Other Liabilities		
Deferred income taxes	**37,719,859**	28,795,885
Deferred investment tax credits	**235,422**	277,698
Regulatory liabilities	**875,106**	1,136,071
Environmental liabilities	**511,223**	835,143
Other pension and benefit costs	**7,335,116**	2,513,030
Accrued asset removal cost	**20,641,279**	20,249,948
Other liabilities	**3,929,612**	3,861,229
Total deferred credits and other liabilities	**71,247,617**	57,669,004
Other Commitments and Contingencies (Note N)		
Total Capitalization and Liabilities	**$385,794,510**	$381,557,012

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

Consolidated Statements of Stockholders' Equity

	Common Stock							
	Number of Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Deferred Compensation	Treasury Stock	Total
Balances at December 31, 2005	**5,883,099**	**$2,863,212**	**$39,619,849**	**$42,854,894**	**($578,151)**	**$794,535**	**($797,156)**	**84,757,183**
Net earnings				10,506,525				10,506,525
Other comprehensive income, net of tax:								
Minimum pension liability, net of tax [1]					74,036			74,036
Total comprehensive income								10,580,561
Adjustment to initially apply SFAS No. 158, net of tax [5][6]					169,565			169,565
Dividend Reinvestment Plan	38,392	18,685	1,148,100					1,166,785
Retirement Savings Plan	29,705	14,457	900,354					914,811
Conversion of debentures	16,677	8,117	275,300					283,417
Share based compensation [2][4]	29,866	14,536	887,426					901,962
Stock warrants, net of tax			(233,327)					(233,327)
Deferred Compensation Plan						323,974	(323,974)	-
Purchase of treasury stock	(97)						(51,572)	(51,572)
Sale and distribution of treasury stock	97						54,193	54,193
Stock issuance	690,345	335,991	19,362,518					19,698,509
Cash dividends [3]				(7,090,535)				(7,090,535)
Balances at December 31, 2006	**6,688,084**	**3,254,998**	**61,960,220**	**46,270,884**	**(334,550)**	**1,118,509**	**(1,118,509)**	**111,151,552**
Net earnings				13,197,710				13,197,710
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs [5]					(2,828)			(2,828)
Net loss [6]					(514,296)			(514,296)
Total comprehensive income								12,680,586
Dividend Reinvestment Plan	35,333	17,197	1,121,190					1,138,387
Retirement Savings Plan	29,563	14,388	934,295					948,683
Conversion of debentures	8,106	3,945	133,839					137,784
Share based compensation [2][4]	16,324	7,945	1,442,008					1,449,953
Deferred Compensation Plan						285,413	(285,413)	-
Purchase of treasury stock	(971)						(29,771)	(29,771)
Sale and distribution of treasury stock	971						29,771	29,771
Cash dividends [3]				(7,930,400)				(7,930,400)
Balances at December 31, 2007	**6,777,410**	**3,298,473**	**65,591,552**	**51,538,194**	**(851,674)**	**1,403,922**	**(1,403,922)**	**119,576,545**
Net earnings				13,607,259				13,607,259
Other comprehensive income, net of tax:								
Employee Benefit Plans, net of tax:								
Amortization of prior service costs [5]					(71,438)			(71,438)
Net loss [6]					(2,824,981)			(2,824,981)
Total comprehensive income								10,710,840
Dividend Reinvestment Plan	9,060	4,410	269,127					273,537
Retirement Savings Plan	5,260	2,560	156,195					158,755
Conversion of debentures	10,397	5,060	171,680					176,740
Share based compensation [2][4]	24,994	12,165	441,898					454,063
Tax benefit on stock warrants			50,244					50,244
Deferred Compensation Plan						144,585	(144,585)	-
Purchase of treasury stock	(2,425)						(71,573)	(71,573)
Sale and distribution of treasury stock	2,425						71,573	71,573
Dividends on stock-based compensation				(79,570)				(79,570)
Cash dividends [3]				(8,247,962)				(8,247,962)
Balances at December 31, 2008	**6,827,121**	**$3,322,668**	**$66,680,696**	**$56,817,921**	**($3,748,093)**	**$1,548,507**	**($1,548,507)**	**$123,073,192**

[1] Tax expense recognized on the minimum pension liability adjustment for 2006 was $48,889.

[2] Includes amounts for shares issued for Directors' compensation.

[3] Cash dividends per share for 2008, 2007 and 2006 were $1.22, $1.18 and $1.16, respectively.

[4] The shares issued under the PIP are net of shares withheld for employee taxes. For 2008, the Company withheld 12,511 shares for taxes, 2,420 shares for 2007 and 9,054 shares for 2006.

[5] Tax expense (benefit) recognized on the prior service cost component of employees benefit plans for 2008, 2007 and 2006 were ($51,841), ($1,871) and $11,756, respectively.

[6] Tax expense (benefit) recognized on the net gain (loss) component of employees benefit plans for 2008, 2007 and 2006 were ($1.9 million), ($340,449) and $100,217, respectively

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

Consolidated Statements of Income Taxes

For the Years Ended December 31,	2008	2007	2006
Current Income Tax Expense			
Federal	**($2,551,138)**	$5,512,071	$5,994,296
State	**-**	1,223,145	1,424,485
Investment tax credit adjustments, net	**(42,276)**	(50,579)	(54,816)
Total current income tax expense (benefit)	**(2,593,414)**	6,684,637	7,363,965
Deferred Income Tax Expense [1]			
Property, plant and equipment	**10,347,035**	2,958,758	1,697,024
Deferred gas costs	**781,635**	(629,228)	(2,085,066)
Pensions and other employee benefits	**(174,365)**	(9,154)	(97,436)
Environmental expenditures	**144,848**	45,872	(5,580)
Other	**311,423**	(464,322)	(36,345)
Total deferred income tax expense (benefit)	**11,410,576**	1,901,926	(527,403)
Total Income Tax Expense	**$8,817,162**	$8,586,563	$6,836,562
Reconciliation of Effective Income Tax Rates			
Continuing Operations			
Federal income tax expense [2]	**$7,862,760**	$7,635,336	$6,212,237
State income taxes, net of federal benefit	**1,162,081**	1,086,680	829,630
Other	**(207,679)**	(124,555)	(42,795)
Total continuing operations	**8,817,162**	8,597,461	6,999,072
Discontinued operations	**-**	(10,898)	(162,510)
Total income tax expense	**$8,817,162**	$8,586,563	$6,836,562
Effective income tax rate	**39.3%**	39.4%	39.4%

At December 31,	2008	2007
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	**$41,248,245**	$31,058,050
Environmental costs	**394,869**	250,021
Other	**2,414,121**	860,993
Total deferred income tax liabilities	**44,057,235**	32,169,064
Deferred income tax assets:		
Pension and other employee benefits	**4,679,075**	2,581,853
Self insurance	**370,398**	384,009
Deferred gas costs	**364,498**	1,146,133
Other	**2,501,210**	1,416,577
Total deferred income tax assets	**7,915,181**	5,528,572
Deferred Income Taxes Per Consolidated Balance Sheet	**$36,142,054**	$26,640,492

(1) Includes $1,588,000, $260,000 and (60,000) of deferred state income taxes for the years 2008, 2007 and 2006, respectively.
(2) Federal income taxes were recorded at 35% for each year represented.

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

A. Summary of Accounting Policies

Nature of Business

Chesapeake is engaged in natural gas distribution to approximately 65,200 customers located in central and southern Delaware, Maryland's Eastern Shore and Florida. The Company's natural gas transmission subsidiary operates an interstate pipeline from various points in Pennsylvania and northern Delaware to the Company's Delaware and Maryland distribution divisions as well as to other utility and industrial customers in Pennsylvania, Delaware and the Eastern Shore of Maryland. The Company's natural gas marketing subsidiary sells natural gas supplies directly to commercial and industrial customers in the States of Florida, Delaware and Maryland. The Company's propane distribution and wholesale marketing segment provides distribution service to 35,200 customers in Delaware, the Eastern Shore of Maryland, southeastern Pennsylvania, central Florida and the Eastern Shore of Virginia and markets propane to wholesale customers including large independent oil and petrochemical companies, resellers and propane distribution companies in the southeastern United States. The advanced information services segment provides domestic and international clients with information-technology-related business services and solutions for both enterprise and e-business applications.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. The Company does not have any ownership interests in investments accounted for using the equity method or any variable interests in a variable interest entity. All 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 PSCs with respect to their rates for service, maintenance of their accounting records and various other matters. ESNG is an open access pipeline and is subject to regulation by the FERC. Our financial statements are prepared in accordance with GAAP, which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane, advanced information services and other business segments are not subject to regulation with respect to rates or maintenance of accounting records.

Property, Plant, Equipment and Depreciation

Utility and non-utility property is stated at original cost. Costs include direct labor, materials and third-party construction contractor costs, allowance for capitalized interest and certain indirect costs related to equipment and employees engaged in construction. The costs of repairs and minor replacements are charged against income as incurred, and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. Upon retirement or disposition of utility property, the gain or loss, net of salvage value, is charged to accumulated depreciation. The provision for depreciation is computed using the straight-line method at rates that amortize the unrecovered cost of depreciable property over the estimated remaining useful life of the asset. Depreciation and amortization expenses are provided at an annual rate for each segment.

At December 31,	2008	2007	Useful Life [1]
Plant in service			
Mains	$184,124,950	$166,202,413	27-65 years
Services — utility	37,946,690	35,127,633	14-55 years
Compressor station equipment	24,980,668	24,959,330	44 years
Liquefied petroleum gas equipment	26,303,832	25,575,213	5-33 years
Meters and meter installations	19,479,360	18,111,466	Propane 10-33 years, Natural gas 25-49 years
Measuring and regulating station equipmer	15,092,354	14,067,262	24-54 years
Office furniture and equipment	12,536,281	9,947,881	Non-regulated 3-10 years, Regulated 14-25 years
Transportation equipment	11,266,723	11,194,916	3-11 years
Structures and improvements	10,601,819	10,024,105	10-79 years [2]
Land and land rights	7,901,058	7,404,679	Not depreciable, except certain regulated assets
Propane bulk plants and tanks	6,296,155	5,313,061	15-40 years
Various	23,676,899	20,009,979	Various
Total plant in service	380,206,789	347,937,938	
Plus construction work in progress	1,481,448	4,899,608	
Less accumulated depreciation	(101,017,551)	(92,414,289)	
Net property, plant and equipment	$280,670,686	$260,423,257	

[1] Certain immaterial account balances may fall outside this range.

The regulated operations compute depreciation in accordance with rates approved by either the state Public Service Commission or the FERC. These rates are based on depreciation studies and may change periodically upon receiving approval from the appropriate regulatory body. The depreciation rates shown above are based on the remaining useful lives of the assets at the time of the depreciation study, rather than their original lives. The depreciation rates are composite, straight-line rates applied to the average investment for each class of depreciable property and are adjusted for anticipated cost of removal less salvage value.

The non-regulated operations compute depreciation using the straight-line method over the estimated useful life of the asset.

[2] Includes buildings, structures used in connection with natural gas and propane operations, improvements to those facilities and leasehold improvements.

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 when purchased are considered cash equivalents.

Inventories

The Company uses the average cost method to value propane and materials and supplies inventory. If market prices drop below cost, inventory balances that are subject to price risk are adjusted to market values.

Regulatory Assets, Liabilities and Expenditures

The Company accounts for its regulated operations in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." This standard includes accounting principles for companies whose rates are determined by independent third-party regulators. When setting rates, regulators often make decisions, the economics of which require companies to defer costs or revenues in different periods than may be appropriate for unregulated enterprises. When this situation occurs, the regulated utility defers the associated costs as assets (regulatory assets) on the balance sheet and records them as expense on the income statement as it collects revenues. Further, regulators can also impose liabilities upon a company for amounts previously collected from customers, and for recovery of costs that are expected to be incurred in the future (regulatory liabilities).

At December 31, 2008 and 2007, the regulated utility operations had recorded the following regulatory assets and liabilities on the Balance Sheets. These assets and liabilities will be recognized as revenues and expenses in future periods as they are reflected in customers' rates.

At December 31,	2008	2007
Regulatory Assets		
Current		
Underrecovered purchased gas costs	**$650,820**	$1,389,454
Swing transportation imbalances	**2,059**	-
PSC Assessment	**18,575**	22,290
Flex rate asset	**107,943**	107,394
Other	**46,612**	55,934
Total current	**826,009**	1,575,072
Non-Current		
Income tax related amounts due from customers	**1,284,552**	1,115,638
Deferred regulatory and other expenses	**646,126**	446,642
Deferred gas supply	**12,667**	15,201
Deferred post retirement benefits	**83,370**	111,159
Environmental regulatory assets and expenditures	**779,480**	850,594
Total non-current	**2,806,195**	2,539,234
Total Regulatory Assets	**$3,632,204**	$4,114,306
Regulatory Liabilities		
Current		
Self insurance — current	**$162,616**	$191,004
Overrecovered purchased gas costs	**1,542,174**	4,225,845
Shared interruptible margins	**231,919**	11,202
Conservation cost recovery	**743,874**	395,379
Swing transportation imbalances	**546,754**	1,477,336
Total current	**3,227,337**	6,300,766
Non-Current		
Self insurance — long-term	**749,827**	757,557
Income tax related amounts due to customers	**125,279**	151,521
Environmental overcollections	**-**	226,993
Total non-current	**875,106**	1,136,071
Accrued asset removal cost	**20,641,279**	20,249,948
Total Regulatory Liabilities	**$24,743,722**	$27,686,785

Included in the current regulatory assets listed above is a flex rate asset of approximately $108,000, which is accruing interest. Of the remaining regulatory assets, $1.7 million will be collected in approximately one to two years, $623,000 will be collected within approximately three to ten years, $83,000 will be collected within approximately 11 to 15 years, and $481,000 will be collected within approximately 16-25 years. In addition, there is approximately $711,000 for which the Company is awaiting regulatory approval for recovery; once approved, this amount is expected to be collected over a period greater than 12 months.

As required by SFAS No. 71, the Company monitors its regulatory and competitive environment to determine whether the recovery of its regulatory assets continues to be probable. If the Company were to determine that recovery of these assets is no longer probable, it would write off the assets against earnings. The Company believes that SFAS No. 71 continues to apply to its regulated operations, and that the recovery of its regulatory assets is probable.

Goodwill and Other Intangible Assets

The Company accounts for its goodwill and other intangibles under SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). Under SFAS No. 142, goodwill is not amortized but is tested for impairment at least annually. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. Other intangible assets are amortized on a straight-line basis over their estimated economic useful lives. Please refer to Note G, "Goodwill and Other Intangible Assets," for additional discussion of this subject.

Other Deferred Charges

Other deferred charges include discount, premium and issuance costs associated with long-term debt. Debt costs are deferred and then are amortized to interest expense over the original lives of the respective debt issuances.

Pension and Other Postretirement Plans

Pension and other postretirement plan costs and liabilities are determined on an actuarial basis and are affected by numerous assumptions and estimates including the market value of plan assets, estimates of the expected return on plan assets, assumed discount rates, the level of contributions made to the plans, current demographic and actuarial mortality data. The Company annually reviews the estimates and assumptions underlying our pension and other postretirement plan costs and liabilities with the assistance of a third-party actuarial firm. The assumed discount rate and the expected return on plan assets are the assumptions that generally have the most significant impact on the Company's pension costs and liabilities. The assumed discount rate, the assumed health care cost trend rate and the assumed rates of retirement generally have the most significant impact on our postretirement plan costs and liabilities.

The discount rate is utilized principally in calculating the actuarial present value of our pension and postretirement obligations and net pension and postretirement costs. When establishing its discount rate, the Company considers high quality corporate bond rates based on Moody's Aa bond index, changes in those rates from the prior year, and other pertinent factors, such as the expected life of the plan and the lump-sum-payment option.

The expected long-term rate of return on assets is utilized in calculating the expected return on plan assets component of our annual pension and postretirement plan costs. The Company estimates the expected return on plan assets by evaluating expected bond returns, asset allocations, the effects of active plan management, the impact of periodic plan asset rebalancing and historical performance. The Company also considers the guidance from its investment advisors in making a final determination of its expected rate of return on assets.

The Company estimates the assumed health care cost trend rate used in determining our postretirement net expense based upon its actual health care cost experience, the effects of recently enacted legislation and general economic conditions. The Company's assumed rate of retirement is estimated based upon its annual review of its participant census information as of the measurement date.

Actual changes in the fair market value of plan assets and differences between the actual return on plan assets and the expected return on plan assets could have a material effect on the amount of pension costs ultimately recognized. A 0.25 percent change in the Company's discount rate would impact our defined pension cost by approximately $10,000, impact the Pension SERP costs by approximately $2,000 and postretirement costs by approximately $7,000. A 0.25 percent change in the Company's expected rate of return would impact our defined pension costs by approximately $16,000 and will not have an impact on either the Pension SERP or the other postretirement costs because these plans are unfunded.

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 bases and tax bases of assets and liabilities and are measured using the enacted tax rates in effect in the years

in which the differences are expected to reverse. 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. Deferred tax assets are recorded net of any valuation allowance when it is more likely than not that such tax benefits will be realized. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

The Company adopted the provisions of FIN 48, "Uncertain Tax Positions," ("FIN 48") effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements in accordance with SFAS No. 109. FIN 48 requires that an uncertain tax position should be recognized only if it is "more likely than not" that the position is sustainable based on technical merits. Recognizable tax positions should then be measured to determine the amount of benefit recognized in the financial statements. The Company's adoption of FIN 48 did not have an impact on its financial condition or results of operations.

Financial Instruments

Xeron, the Company's propane wholesale 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. The changes in market price are recognized as gains or losses in revenues on the income statement in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. There were unrealized gains of $1.4 million and $179,000 at December 31, 2008 and 2007, respectively. Trading liabilities are recorded in mark-to-market energy liabilities. Trading assets are recorded in mark-to-market energy assets.

The Company's natural gas and propane distribution operations have entered into agreements with suppliers to purchase natural gas and propane for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives under SFAS No. 133 or are considered "normal purchases and sales" under SFAS No. 138 and are accounted for on an accrual basis.

The propane distribution operation may enter into a fair value hedge of its inventory in order to mitigate the impact of wholesale price fluctuations. Wholesale propane prices rose dramatically during the spring months of 2008, when they are traditionally at their lowest. In efforts to protect the Company from the impact that additional price increases would have on the Pro-Cap (propane price cap) Plan that we offer to customers, the propane distribution operation had entered into a swap agreement. By December 31, 2008, the market price of propane declined well below the unit price in the swap agreement. As a result, the Company marked the January 2009 and February 2009 gallons in the agreement to market, which increased 2008 cost of sales by $939,000. The Company terminated this swap agreement in January 2009. At December 31, 2007, the Company had not hedged any of its propane inventories.

Earnings Per Share

Chesapeake calculates earnings per share in accordance with SFAS No. 128. The calculations of both basic and diluted earnings per share are presented in the following chart.

For the Periods Ended December 31,	2008	2007	2006
Calculation of Basic Earnings Per Share:			
Net Income	**$13,607,259**	$13,197,710	$10,506,525
Weighted average shares outstanding	**6,811,848**	6,743,041	6,032,462
Basic Earnings Per Share	**$2.00**	$1.96	$1.74
Calculation of Diluted Earnings Per Share:			
Reconciliation of Numerator:			
Net Income	**$13,607,259**	$13,197,710	$10,506,525
Effect of 8.25% Convertible debentures	**88,657**	95,611	105,024
Adjusted numerator — Diluted	**$13,695,916**	$13,293,321	$10,611,549
Reconciliation of Denominator:			
Weighted shares outstanding — Basic	**6,811,848**	6,743,041	6,032,462
Effect of dilutive securities:			
Share-based Compensation	**12,083**	-	-
8.25% Convertible debentures	**103,552**	111,675	122,669
Adjusted denominator — Diluted	**6,927,483**	6,854,716	6,155,131
Diluted Earnings Per Share	**$1.98**	$1.94	$1.72

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the PSCs in the jurisdictions in which the Company operates. The natural gas transmission operation's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions. The PSCs, however, have allowed the natural gas distribution operations to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. The natural gas transmission operation can also negotiate rates above or below the FERC-approved maximum rates, which customers can elect as recourse to negotiated rates.

For regulated deliveries of natural gas, Chesapeake reads meters and bills customers on monthly cycles that do not coincide with the accounting periods used for financial reporting purposes. Chesapeake accrues unbilled revenues for gas that has been delivered but not yet billed at the end of an accounting period to the extent that they do not coincide. In connection with this accrual, Chesapeake must estimate the amount of gas that has not been accounted for on its delivery system and must estimate the amount of the unbilled revenue by jurisdiction and customer class. A similar computation is made to accrue unbilled revenues for propane customers with meters, such as community gas system customers.

The propane wholesale marketing operation records trading activity for open contracts, on a net mark-to-market basis in the Company's income statement. The propane distribution, advanced information services and other segments record revenue in the period in which the products are delivered and/or services are rendered.

Chesapeake's natural gas distribution operations in Delaware and Maryland have a PSC-approved purchased gas cost recovery mechanism. This mechanism provides the Company with a method of adjusting the billing rates with its customers for changes in the cost of purchased gas included in base rates. The difference between the current cost of gas purchased and the cost of gas recovered in billed rates is deferred and accounted for as either unrecovered purchased gas costs or amounts payable to customers. Generally, these deferred amounts are recovered or refunded within one year.

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

Cost of Sales

Cost of sales includes the direct costs attributable to the products sold or services provided by the Company for its utility and non-utility operations. These costs primarily include the variable cost of natural gas and propane commodities, pipeline capacity costs needed to transport and store natural gas, transportation costs to transport propane purchases to our storage facilities, and the direct cost of labor for our advanced information services segment.

Operations and Maintenance Expenses

Operations and maintenance expenses are costs associated with the operation and maintenance of the Company's utility and non-utility operations. Major cost components include operation and maintenance salaries and benefits, materials and supplies, usage of vehicles, tools and equipment, payments to contractors, utility plant maintenance, customer service, professional fees and other outside services, insurance expense, minor amounts of depreciation, accretion of cost of removal for future retirements of utility assets, and other administrative expenses.

Depreciation and Accretion Included in Operations Expenses

Depreciation and accretion included in operations expenses consist of the accretion of the costs of removal for future retirement of utility assets, vehicle depreciation, computer software and hardware depreciation, and other minor amounts of depreciation expense.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded against amounts due to reduce the net receivables balance to the amount we reasonably expect to collect based upon the Company's collections experiences and the Company's assessment of its customers' inability or reluctance to pay. If circumstances change, our estimates of recoverable accounts receivable may also change. Circumstances which could affect such estimates include, but are not limited to, customer credit issues, the level of natural gas prices and general economic conditions. Accounts are written off when they are deemed to be uncollectible.

Certain Risks and Uncertainties

The Company's financial statements are prepared in conformity with GAAP that require management to make estimates in measuring assets and liabilities and related revenues and expenses (see Notes N and O 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 SFAS No. 71. If the Company were required to terminate application of SFAS No. 71 for its regulated operations, all amounts deferred in accordance with SFAS No. 71 would be recognized in the income statement at that time. This could result in a charge to earnings, net of applicable income taxes, which could be material.

Financial Accounting Standards Board ("FASB") Statements and Other Authoritative Pronouncements

Recent accounting pronouncements:

In December 2007, the FASB issued SFAS No. 141(R), which retains the fundamental requirements of the original pronouncement requiring that the acquisition method be used for all business combinations. SFAS No.141(R): (a) defines the acquirer as the entity that obtains control of one or more businesses in a business combination, (b) establishes the acquisition date as the date that the acquirer achieves control and (c) requires the acquirer to recognize the assets

acquired, liabilities assumed and any non-controlling interests at their fair values as of the acquisition date. SFAS No. 141(R) also requires that acquisition-related costs be expensed as incurred. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS No.141(R) to have a material impact on its current consolidated financial position and results of operations. However, depending upon the size, nature and complexity of future acquisition transactions, the adoption of SFAS No. 141(R) could materially affect the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, an amendment of Accounting Research Bulletin No. 51, which changes the accounting and reporting for minority interests by recharacterizing them as noncontrolling interests and classifying them as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. No other entity has a minority interest in any of the Company's subsidiaries; therefore, the Company does not expect the adoption of SFAS No. 160 to have a material impact on its current consolidated financial position and results of operations.

In November 2008, the SEC released a proposed roadmap regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS). IFRS is a comprehensive series of accounting standards published by the International Accounting Standards Board ("IASB"). Under the proposed roadmap, the Company may be required to prepare financial statements in accordance with IFRS as early as 2014. The SEC will make a determination in 2011 regarding the mandatory adoption of IFRS. The Company is currently assessing the impact that this potential change would have on its consolidated financial statements, and it will continue to monitor the development of the potential implementation of IFRS.

In March 2008, the FASB issued SFAS No. 161, an amendment of FASB Statement No. 133, which requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to the Company in the first quarter of fiscal 2009. The Company does not expect the adoption of SFAS No. 161 to have a material impact on its current consolidated financial position and results of operations.

In April 2008, the FASB issued FSP 142-3. This FSP amends the factors which should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company does not expect the adoption of FSP SFAS No. 142-3 to have a material impact on its current consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162 with the intent to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with GAAP in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the SEC of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." The Company does not expect the adoption of SFAS No. 162 to have a material impact on the preparation of its consolidated financial statements.

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") APB 14-1, which clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants." In addition, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt

borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company does not expect the adoption of FSP APB 14-1 to have a material impact on its current consolidated financial position and results of operations.

In June 2008, the FASB issued Emerging Issues Task force ("EITF") 03-6-1 to clarify that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities, and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF 03-6-1 to have a material impact on its current consolidated financial position and results of operations.

In June 2008, the FASB ratified EITF 07-5. EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign-currency-denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF 07-5 to have a material impact on its current consolidated financial position and results of operations.

In June 2008, the FASB ratified EITF 08-3 to provide guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of EITF 08-3 to have a material impact on its current consolidated financial position and results of operations.

In September 2008, the FASB ratified EITF 08-5 to provide guidance for measuring liabilities issued with an attached third-party credit enhancement (such as a guarantee). It clarifies that the issuer of a liability with a third-party credit enhancement should not include the effect of the credit enhancement in the fair value measurement of the liability. EITF 08-5 is effective for the first reporting period beginning after December 15, 2008. The Company does not expect the adoption of EITF 08-5 to have a material impact on its current consolidated financial position and results of operations.

During 2008, the Company adopted the following accounting standards:

In September 2008, the FASB issued FSP 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161" ("FSP 133-1/FIN 45-4"). FSP 133-1/FIN 45-4 amends and enhances disclosure requirements for sellers of credit derivatives and financial guarantees. It also clarifies that the disclosure requirements of SFAS No. 161 are effective for quarterly periods beginning after November 15, 2008, and fiscal years that include those periods. FSP 133-1/FIN 45-4 is effective for reporting periods (annual or interim) ending after November 15, 2008. The implementation of this standard did not have a material impact on the Company's consolidated financial position and results of operations.

In October 2008, the FASB issued FSP 157-3 to clarify the application of the provisions of SFAS No. 157 in an inactive market and how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applied to the Company's September 30, 2008 financial statements. The application of the provisions of FSP 157-3 did not materially affect the company's results of operations or financial condition as of and for the period ended December 31, 2008.

Effective January 1, 2008, Chesapeake adopted FIN 39-1, which permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. Based on the derivative contracts entered into to

date, adoption of this FSP has not materially affected the Company's consolidated financial statements for the period ended December 31, 2008.

In September 2006, the FASB issued SFAS No. 157, which provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies' measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued FSP 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement No. 13" ("FSP 157-1"), and FSP 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2009 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These non-financial items include assets and liabilities, such as reporting units measured at fair value in a goodwill impairment test and non-financial assets acquired and liabilities assumed in a business combination. SFAS No. 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007 and was adopted by the Company, as it applies to its financial instruments, effective January 1, 2008. Adoption of SFAS No. 157 had no financial impact on the Company's consolidated financial statements. The disclosures required by SFAS No. 157 are discussed in Note E – "Fair Value of Financial Instruments" of the Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, which permits entities to elect to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 became effective in the first quarter of fiscal 2008. The Company has not elected to apply the fair value option to any of its financial instruments.

Reclassification of Prior Years' Amounts

The Company reclassified some previously reported amounts to conform to current period classifications.

B. Business Dispositions and Discontinued Operations

During 2007, Chesapeake decided to close its distributed energy services subsidiary, OnSight, which had experienced operating losses since its inception in 2004. OnSight was previously reported as part of the Company's Other Business segment. The results of operations for OnSight have been reclassified to discontinued operations and shown net of tax for all periods presented. The discontinued operations experienced a net loss of $20,000 for 2007, compared to a net loss of $241,000 for 2006. The Company did not have any discontinued operations in 2008.

C. SEGMENT INFORMATION

The following table presents information about the Company's reportable segments. The table excludes financial data related to its distributed energy company, which was reclassified to discontinued operations for each year presented.

For the Years Ended December 31,	2008	2007	2006
Operating Revenues, Unaffiliated Customers			
Natural gas	**$210,957,687**	$180,842,699	$170,114,512
Propane	**65,873,930**	62,837,696	48,575,976
Advanced information services	**14,611,860**	14,606,100	12,509,077
Total operating revenues, unaffiliated customers	**$291,443,477**	$258,286,495	$231,199,565
Intersegment Revenues [1]			
Natural gas	**$444,083**	$359,235	$259,970
Propane	**2,861**	406	-
Advanced information services	**108,596**	492,840	58,532
Other	**652,296**	622,272	618,492
Total intersegment revenues	**$1,207,836**	$1,474,753	$936,994
Operating Income			
Natural gas	**$25,846,346**	$22,485,266	$19,733,487
Propane	**1,586,414**	4,497,843	2,534,035
Advanced information services	**694,636**	835,981	767,160
Other and eliminations	**351,538**	294,492	297,255
Operating Income	**28,478,934**	28,113,582	23,331,937
Other income	**103,039**	291,305	189,093
Interest charges	**6,157,552**	6,589,639	5,773,993
Income taxes	**8,817,162**	8,597,461	6,999,072
Net income from continuing operations	**$13,607,259**	$13,217,787	$10,747,965
Depreciation and Amortization			
Natural gas	**$6,694,037**	$6,917,609	$6,312,277
Propane	**2,024,172**	1,842,047	1,658,554
Advanced information services	**175,295**	143,706	112,729
Other and eliminations	**111,407**	156,823	160,155
Total depreciation and amortization	**$9,004,911**	$9,060,185	$8,243,715
Capital Expenditures			
Natural gas	**$25,386,046**	$23,086,713	$43,894,614
Propane	**3,416,514**	5,290,215	4,778,891
Advanced information services	**678,705**	174,184	159,402
Other	**1,362,246**	1,591,272	321,204
Total capital expenditures	**$30,843,511**	$30,142,384	$49,154,111

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

At December 31,	2008	2007	2006
Identifiable Assets			
Natural gas	**$297,407,548**	$273,500,890	$252,292,600
Propane	**72,954,861**	94,966,212	60,170,200
Advanced information services	**3,544,847**	2,507,910	2,573,810
Other	**11,849,010**	10,533,511	10,503,804
Total identifiable assets	**$385,756,266**	$381,508,523	$325,540,414

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 segments are evaluated based on their pre-tax operating income.

The Company's operations are primarily domestic. The advanced information services segment has infrequent transactions with foreign companies, located primarily in Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

D. Supplemental Cash Flow Disclosures

Cash paid for interest and income taxes during the years ended December 31, 2008, 2007, and 2006 was as follow:

For the Years Ended December 31,	2008	2007	2006
Cash paid for interest	$5,835,321	$5,592,279	$5,334,477
Cash paid for income taxes	$3,884,921	$7,009,206	$6,285,272

Non-cash investing and financing activities during the years ended December 31, 2008, 2007, and 2006 were as follow:

For the Years Ended December 31,	2008	2007	2006
Capital property and equipment acquired on account, but not paid as of December 31	$696,268	$365,890	$1,490,890
Retirement Savings Plan	$158,756	$948,683	$914,811
Dividends Reinvestment Plan	$208,194	$840,718	$844,920
Conversion of Debentures	$176,740	$137,784	$283,417
Performance Incentive Plan	$568,361	$435,309	$715,494
Director Stock Compensation Plan	$181,312	$183,573	$175,617
Tax benefit on stock warrants	$50,244	-	$201,455

E. Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted SFAS No. 157 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and liabilities that are measured and reported on a fair value basis. Adoption of SFAS No. 157 had no impact on the Consolidated Balance Sheets and Statements of Income. The primary effect of SFAS No. 157 on the Company was to expand the required disclosures pertaining to the methods used to determine fair values.

SFAS No. 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are the following:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following table summarizes the Company's financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy used at December 31, 2008:

		Fair Value Measurements Using:		
(in thousands)	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments	$1,601	$1,601	-	-
Mark-to-market energy assets	$4,482	-	$4,482	-
Liabilities:				
Mark-to-market energy liabilities	$3,052	-	$3,052	-
Price swap agreement	$105	-	$105	-

The following valuation techniques were used to measure fair value assets in the table above on a recurring basis as of December 31, 2008:

Level 1 Fair Value Measurements:

Investments - The fair values of these trading securities are recorded at fair value based on unadjusted quoted prices in active markets for identical securities.

Level 2 Fair Value Measurements:

Mark-to-market energy assets and liabilities - These forward contracts are valued using market transactions in either the listed or OTC markets.

Propane price swap agreement – The fair value of the propane price swap agreement is valued using market transactions in either the listed or OTC markets.

In addition, 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. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology that incorporates a market interest rate that is based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, and risk profile. The Company's long-term debt at December 31, 2008, including current maturities, had an estimated fair value of $92.3 million compared to a carrying value of $93.1 million. At December 31, 2007, the estimated fair value was approximately $75.0 million compared to a carrying value of $70.9 million.

The Company's adoption of SFAS No. 157 applies only to its financial instruments and does not apply to those non-financial assets and non-financial liabilities delayed under FSP No. 157-2, which will be implemented for fiscal years beginning after November 15, 2009.

F. INVESTMENTS

The investment balances at December 31, 2008 and 2007 represent a Rabbi Trust associated with the Company's Supplemental Executive Retirement Savings Plan and a Rabbi Trust related to a stay bonus agreement with a former executive. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company classifies these investments as trading securities. As a result of classifying them as trading securities, the Company is required to report the securities at their fair value, with any unrealized gains and losses included in other

income. The Company also has an associated liability that is recorded and adjusted each month for the gains and losses incurred by the Trust. At December 31, 2008 and 2007, total investments had a fair value of $1.6 million and $1.9 million, respectively.

G. Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, goodwill is tested for impairment at least annually. In addition, goodwill of a reporting unit is tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. The propane segment reported $674,000 in goodwill for the two years ended December 31, 2008 and 2007. Testing for 2008 and 2007 indicated that no impairment of the goodwill has occurred.

The carrying value and accumulated amortization of intangible assets subject to amortization for the years ended December 31, 2008 and 2007 are as follow:

	December 31, 2008		December 31, 2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer lists	$115,333	$89,481	$115,333	$82,269
Acquisition costs	263,659	125,243	263,659	118,650
Total	$378,992	$214,724	$378,992	$200,919

Amortization of intangible assets was $14,000 for the years ended December 31, 2008 and 2007. The estimated annual amortization of intangibles is $14,000 per year for each of the years 2009 through 2013.

H. STOCKHOLDERS' EQUITY

Changes in common stock shares issued and outstanding are shown in the table below:

For the Years Ended December 31,	2008	2007	2006
Common Stock shares issued and outstanding [1]			
Shares issued — beginning of period balance	**6,777,410**	6,688,084	5,883,099
Dividend Reinvestment Plan [2]	**9,060**	35,333	38,392
Retirement Savings Plan	**5,260**	29,563	29,705
Conversion of debentures	**10,397**	8,106	16,677
Employee award plan	**250**	350	350
Share-based compensation [3]	**24,744**	15,974	29,516
Public offering	-	-	690,345
Shares issued — end of period balance [4]	**6,827,121**	6,777,410	6,688,084
Treasury shares — beginning of period balance	-	-	(97)
Purchases	**(2,425)**	(971)	-
Deferred Compensation Plan	**2,425**	971	-
Other issuances	-	-	97
Treasury Shares — end of period balance	-	-	-
Total Shares Outstanding	**6,827,121**	**6,777,410**	**6,688,084**

[1] 12,000,000 shares are authorized at a par value of $0.4867 per share.
[2] Includes shares purchased with reinvested dividends and optional cash payments.
[3] Includes shares issued for Directors' compensation.
[4] Includes 62,221, 57,309, and 48,187 shares at December 31, 2008, 2007 and 2006, respectively, held in a Rabbi Trust established by the Company relating to the Deferred Compensation Plan.

On November 21, 2006, the Company completed a public offering of 600,300 shares of its common stock at a price per share of $30.10. On November 30, 2006, the Company completed the sale of 90,045 additional shares of its common stock, pursuant to the over-allotment option granted to the underwriters by the Company. The net proceeds from the sale of common stock, after deducting underwriting commissions and expenses, were approximately $19.7 million, which were added to the Company's general funds and used primarily to repay a portion of the Company's short-term debt under unsecured lines of credit.

I. LONG-TERM DEBT

The Company's outstanding long-term debt is as shown below.

At December 31,	2008	2007
Uncollateralized senior notes:		
7.97% note, due February 1, 2008	$ -	$1,000,000
6.91% note, due October 1, 2010	**1,818,182**	2,727,273
6.85% note, due January 1, 2012	**3,000,000**	4,000,000
7.83% note, due January 1, 2015	**12,000,000**	14,000,000
6.64% note, due October 31, 2017	**24,545,455**	27,272,727
5.50% note, due October 12, 2020	**20,000,000**	20,000,000
5.93% note, due October 31, 2023	**30,000,000**	-
Convertible debentures:		
8.25% due March 1, 2014	**1,655,000**	1,832,000
Promissory note	**60,000**	80,000
Total long-term debt	**93,078,637**	70,912,000
Less: current maturities	**(6,656,364)**	(7,656,364)
Total long-term debt, net of current maturities	**$86,422,273**	$63,255,636

Annual maturities of consolidated long-term debt are as follows: $6,656,364 for 2009, $6,656,364 for 2010, $7,747,273 for 2011, $6,727,273 for 2012, $6,727,273 for 2013, and $58,564,091 thereafter.

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 2008 and 2007, debentures totaling $177,000 and $138,000, respectively, were converted to stock. The debentures are also redeemable for cash at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000. In 2008 and 2007, no debentures were redeemed for cash. At the Company's option, the debentures may be redeemed at stated amounts.

On October 31, 2008, the Company issued $30 million of 5.93 percent Unsecured Senior Notes to two institutional investors (General American Life Insurance Company and New England Life Insurance Company). The terms of the Senior Notes require principal repayments of $1.5 million on the 30th day of April and 31st day of October in each year, commencing on April 30, 2014. The Senior Notes will mature on October 31, 2023. The proceeds of the sale of the Senior Notes were used to refinance capital expenditures and for general corporate purposes.

Debt Covenants

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 pro-forma fixed charge coverage ratio must be 1.5 times. Failure to comply with those covenants could result in accelerated due dates and/or termination of the agreements. As of December 31, 2008, the Company is in compliance with all of its debt covenants.

In terms of restrictions which limit the payment of dividends by the Company, each of the Company's Unsecured Senior Notes contains a "Restricted Payments" covenant. The most restrictive covenants of this type are included within the 7.83% Senior Notes, due January 1, 2015. The covenant provides that the Company cannot pay or declare any dividends or make any other Restricted Payments (such as dividends) in excess of the sum of $10.0 million, plus consolidated net income of the Company accrued on and after January 1, 2001. As of December 31, 2008, the Company's cumulative consolidated net income base was $86.9 million, offset by Restricted Payments of $54.4 million, leaving $32.5 million of cumulative net income free of restrictions.

In addition, the Company's subsidiaries are not restricted from transferring funds to the Company in the form of loans, advances or cash dividends under the terms of the covenants of the Company's various Unsecured Senior Notes.

J. SHORT-TERM BORROWING

At December 31, 2008 and 2007, we had $33.0 million and $45.7 million, respectively, of short-term borrowing outstanding under our bank credit facilities. The annual weighted average interest rates on our short-term borrowing were 2.79 percent and 5.46 percent for 2008 and 2007, respectively.

The Company also had a letter of credit outstanding with its primary insurance company in the amount of $775,000 as security to satisfy the deductibles under the Company's various insurance policies. This letter of credit reduced the amounts available under the Company's lines of credit and is scheduled to expire on May 31, 2009. The Company does not anticipate that this letter of credit will be drawn upon by the counterparty, and the Company expects that it will be renewed as necessary.

Credit facilities
As of December 22, 2008, the Board of Directors has authorized the Company to borrow up to $65.0 million of short-term debt, as required, from various banks and trust companies under short-term lines of credit. As of December 31, 2008, Chesapeake had five unsecured bank lines of credit with three financial institutions, totaling $100.0 million, none of which requires compensating balances. These bank lines are available to provide funds for the Company's short-term cash needs to meet seasonal working capital requirements and to fund temporarily portions of its capital expenditures. We maintain both committed and uncommitted credit facilities. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks.

Committed credit facilities
As of December 31, 2008, we had two committed revolving credit facilities totaling $55.0 million. The first facility is an unsecured $30.0 million revolving line of credit that bears interest at the respective LIBOR rate, plus 0.75 percent per annum. At December 31, 2008, there was $17.0 million available under this credit facility.

The second facility is a $25.0 million committed revolving line of credit that bears interest at a base rate plus 125 basis points, if requested and advanced on the same day, or LIBOR for the applicable period plus 125 basis points if requested three days prior to the advance date. At December 31, 2008, the entire borrowing capacity of $25.0 million was available under this credit facility.

The availability of funds under our credit facilities is subject to conditions specified in the respective credit agreements, all of which we currently satisfy. These conditions include our compliance with financial covenants and the continued accuracy of representations and warranties contained in these agreements. We are required by the financial covenants in our revolving credit facilities to maintain, at the end of each fiscal year:

- a funded indebtedness ratio of no greater than 65 percent; and
- A fixed charge coverage ratio of at least 1.20 to 1.0.

The Company is in compliance with all of its debt covenants.

Uncommitted credit facilities
As of December 31, 2008, we had three uncommitted lines of credit facilities totaling $45.0 million. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks.

The first facility is an uncommitted $20.0 million line of credit that bears interest at a rate per annum as offered by the bank for the applicable period. At December 31, 2008, the Company has reached the $20.0 million borrowing capacity under this credit facility.

The second facility is a $10.0 million uncommitted revolving line of credit that bears interest at either the Prime Rate or the daily LIBOR Rate for the applicable period. At December 31, 2008, the entire borrowing capacity of $10.0 million was available under this credit facility.

The final facility is a $15.0 million uncommitted line of credit that bears interest at the bank's base rate or the respective LIBOR rate, plus 1.25 percent per annum. At December 31, 2008, there was $14.2 million available under this credit facility, which was reduced by $775,000 for a letter of credit issued to our primary insurance company. The letter of credit is provided as security to satisfy the deductibles under the Company's various insurance policies and expires on May 31, 2009. The Company does not anticipate that this letter of credit will be drawn upon by the counter-party and it expects that it will be renewed as necessary.

K. Lease Obligations

The Company has entered into several operating lease arrangements for office space, equipment and pipeline facilities. Rent expense related to these leases was $880,000, $736,000, and $680,000 for 2008, 2007, and 2006, respectively. Future minimum payments under the Company's current lease agreements are $770,000, $612,000, $605,000, $560,000 and $369,000 for the years 2009 through 2013, respectively; and $2.4 million thereafter, with an aggregate total of $5.4 million.

L. Employee Benefit Plans

Retirement Plans

Before 1999, Company employees generally participated in both a defined benefit pension plan ("Defined Pension Plan") and a Retirement Savings Plan. Effective January 1, 1999, the Company restructured its retirement program to compete more effectively with similar businesses. As part of this restructuring, the Company closed the Defined Pension Plan to new participants. Employees who participated in the Defined Pension Plan at that time were given the option of remaining in (and continuing to accrue benefits under) the Defined Pension Plan or receiving an enhanced matching contribution in the Retirement Savings Plan.

Because the Defined Pension Plan was not open to new participants, the number of active participants in that plan decreased and was approaching the minimum number needed for the Defined Pension Plan to maintain its tax-qualified status. To avoid jeopardizing the tax-qualified status of the Defined Pension Plan, the Company's Board of Directors amended the Defined Pension Plan on September 24, 2004. To ensure that the Company would continue to provide appropriate levels of benefits to the Company's employees, the Board amended the Defined Pension Plan and the Retirement Savings Plan, effective January 1, 2005, so that Defined Pension Plan participants who were actively employed by the Company on that date would: (1) receive two additional years of benefit service credit to be used in calculating their Defined Pension Plan benefit (subject to the Defined Pension Plan's limit of 35 years of benefit service credit), (2) have the option to receive their Defined Pension Plan benefit in the form of a lump sum at the time they retire, and (3) be eligible to receive the enhanced matching contribution in the Retirement Savings Plan. In addition, effective January 1, 2005, the Board amended the Defined Pension Plan so that participants would not accrue any additional benefits under that plan. These changes were communicated to the Company's employees during the first week of November 2004.

The Company also provides an unfunded pension supplemental executive retirement plan ("Pension SERP"), formerly called the Executive Excess Retirement Plan. This plan was frozen with respect to additional years of service and additional compensation as of December 31, 2004. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. In December 2008, the Pension SERP was amended to allow participants to elect a lump sum payment and to add the other optional forms of benefit payments currently available under the Defined Pension Plan.

In addition to the Defined Pension Plan and the Pension SERP, the Company provides an unfunded postretirement health care and life insurance plan that covers employees who have met certain age and service requirements. The measurement date for each of the three plans was December 31, 2008 and 2007.

In September 2006, the FASB issued SFAS No. 158, which the Company adopted, prospectively, for the Defined Pension, Pension SERP and Other Postretirement Benefits on December 31, 2006. SFAS No. 158 requires that we recognize all obligations related to defined benefit pensions and other postretirement benefits and that we quantify the plans' funded status as an asset or a liability on our consolidated balance sheets.

SFAS No. 158 further requires that we measure the plans' assets and obligations that determine our funded status as of the end of the fiscal year. The Company is also required to recognize as a component of accumulated other comprehensive income ("AOCI") the changes in funded status that occurred during the year that are not recognized as part of net periodic benefit cost, as explained in SFAS No. 87 or SFAS No. 106.

At December 31, 2008, the funded status of the Company's Defined Pension Plan was a liability of $4.9 million; at December 31, 2007, it was a liability of $275,000. In order to account for the decrease in the funded status in accordance with SFAS No. 158, the Company recorded a charge of $2.8 million, net of tax, to Comprehensive Income. In addition, the funded status of the postretirement health and life insurance plan was a liability of $2.2 million at December 31, 2008 compared to $1.8 million at December 31, 2007. To adjust for the increased liability for the postretirement health and life insurance plan, as required by SFAS No. 158, the Company took a charge of $30,400, net of tax, to Comprehensive Income.

The amounts in AOCI for the respective retirement plans that are expected to be recognized as a component of net benefit cost in 2009 are set forth in the following table.

	Defined Benefit Pension	Pension SERP	Other Postretirement Benefit
Prior service cost (credit)	($4,699)	$13,176	-
Net loss	$268,276	$59,089	$158,378

The following table presents the amounts not yet reflected in net periodic benefit cost and included in AOCI as of December 31, 2008.

	Defined Benefit Pension	Pension SERP	Other Postretirement Benefit
Prior service cost (credit)	($20,162)	$118,580	-
Net loss (gain)	4,319,514	(175,725)	1,049,291
Subtotal	4,299,352	(57,145)	1,049,291
Tax expense (benefit)	(1,721,460)	20,041	(420,136)
AOCI	$2,577,892	($37,104)	$629,155

Defined Benefit Pension Plan

As previously described, effective January 1, 2005, the Defined Pension Plan was frozen with respect to additional years of service or additional compensation. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. 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 Company was not required to make any funding payments to the Defined Pension Plan in 2008.

The following schedule summarizes the assets of the Defined Pension Plan, by investment type, at December 31, 2008, 2007 and 2006:

At December 31,	2008	2007	2006
Asset Category			
Equity securities	**48.70%**	49.03%	77.34%
Debt securities	**51.24%**	50.26%	18.59%
Other	**0.06%**	0.71%	4.07%
Total	**100.00%**	100.00%	100.00%

The asset listed as "Other" in the above table represents monies temporarily held in money market funds. The money market fund invests at least 80 percent of its total assets in:

- United States Government obligations; and
- Repurchase agreements that are fully collateralized by such obligations.

The investment policy of the Plan calls for an allocation of assets between equity and debt instruments, with equity being 30 percent and debt at 70 percent, but allowing for a variance of 20 percent in either direction. In addition, as changes are made to holdings, cash, money market funds or United States Treasury Bills may be held temporarily by the fund. Investments in the following are prohibited: options, guaranteed investment contracts, real estate, venture capital, private placements, futures, commodities, limited partnerships and Chesapeake stock; short selling and margin transactions are prohibited as well. During 2007, Chesapeake modified its investment policy to allow the Employee Benefits Committee to reallocate investments to better match the expected life of the plan.

The following schedule sets forth the funded status of the Defined Pension Plan at December 31, 2008 and 2007:

At December 31,	2008	2007
Change in benefit obligation:		
Benefit obligation — beginning of year	**$11,073,520**	$11,449,725
Interest cost	**593,723**	622,057
Change in assumptions	**267,953**	-
Actuarial loss	**83,704**	282,684
Benefits paid	**(426,652)**	(1,280,946)
Benefit obligation — end of year	**11,592,248**	11,073,520
Change in plan assets:		
Fair value of plan assets — beginning of year	**10,798,781**	12,040,287
Actual return on plan assets	**(3,683,183)**	39,440
Benefits paid	**(426,652)**	(1,280,946)
Fair value of plan assets — end of year	**6,688,946**	10,798,781
Reconciliation:		
Funded status	**(4,903,302)**	(274,739)
Accrued pension cost	**($4,903,302)**	($274,739)
Assumptions:		
Discount rate	**5.25%**	5.50%
Expected return on plan assets	**6.00%**	6.00%

The Company reviewed the assumptions used for the discount rate to calculate the benefit obligation of the plan and has elected a rate of 5.25 percent in 2008, reflecting a reduction of 25 basis points in the interest rates of high-quality bonds in 2008, and reflecting the expected life of the plan, in light of the lump-sum-payment option. In addition, the average expected return on plan assets for the Defined Pension Plan remained constant at six percent due to the adoption of a change in the investment policy that allows for a higher level of investment in bonds and a lower level of equity

investments. Since the Plan is frozen with respect to additional years of service and compensation, the rate of assumed compensation rate increases is not applicable. The accumulated benefit obligation was $11.6 million and $11.1 million at December 31, 2008 and 2007, respectively.

Net periodic pension benefit for the Defined Pension Plan for 2008, 2007, and 2006 include the components shown below:

For the Years Ended December 31,	2008	2007	2006
Components of net periodic pension cost:			
Interest cost	**$593,723**	$622,057	$635,877
Expected return on assets	**(629,432)**	(696,398)	(690,533)
Amortization of prior service cost	**(4,699)**	(4,699)	(4,699)
Net periodic pension benefit	**($40,408)**	($79,040)	($59,355)
Assumptions:			
Discount rate	**5.50%**	5.50%	5.25%
Expected return on plan assets	**6.00%**	6.00%	6.00%

Pension Supplemental Executive Retirement Plan

As previously described, this plan was frozen with respect to additional years of service and additional compensation as of December 31, 2004. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. The accumulated benefit obligation for the Pension SERP, which is unfunded, was $2.5 million and $2.3 million at December 31, 2008 and 2007, respectively.

The following schedule sets forth the status of the Pension SERP:

At December 31,	2008	2007
Change in benefit obligation:		
Benefit obligation — beginning of year	**$2,326,250**	$2,286,970
Interest cost	**124,771**	123,361
Actuarial (gain) loss	**39,227**	5,123
Amendments	**118,580**	-
Benefits paid	**(89,204)**	(89,204)
Benefit obligation — end of year	**2,519,624**	2,326,250
Change in plan assets:		
Fair value of plan assets — beginning of year	-	-
Employer contributions	**89,204**	89,204
Benefits paid	**(89,204)**	(89,204)
Fair value of plan assets — end of year	-	-
Reconciliation:		
Funded status	**(2,519,624)**	(2,326,250)
Accrued pension costs	**($2,519,624)**	($2,326,250)
Assumptions:		
Discount rate	**5.25%**	5.50%

The Company reviewed the assumptions used for the discount rate of the plan to calculate the benefit obligation and has elected a rate of 5.25 percent, reflecting a reduction of 25 basis points in the interest rates of high-quality bonds in 2008 and a reduction in the expected life of the plan. Since the Plan is frozen in regard to additional years of service and compensation, the rate of assumed pay-rate increases is not applicable. The measurement dates for the Pension SERP were December 31, 2008 and 2007.

Net periodic pension costs for the Pension SERP for 2008, 2007, and 2006 include the components shown below:

For the Years Ended December 31,	2008	2007	2006
Components of net periodic pension cost:			
Interest cost	$124,771	$123,361	$119,588
Amortization of actuarial loss	45,416	51,734	57,039
Net periodic pension cost	$170,187	$175,095	$176,627
Assumptions:			
Discount rate	5.50%	5.50%	5.25%

Other Postretirement Benefits

The Company sponsors an unfunded postretirement health care and life insurance plan that covers substantially all employees. The following schedule sets forth the status of the postretirement health care and life insurance plan:

At December 31,	2008	2007
Change in benefit obligation:		
Benefit obligation — beginning of year	$1,755,564	$1,763,108
Retirees	551,684	56,123
Fully-eligible active employees	(19,329)	21,012
Other active	(109,852)	(84,679)
Benefit obligation — end of year	$2,178,067	$1,755,564
Change in plan assets:		
Fair value of plan assets - beginnning of year	-	-
Employer contributions	39,598	243,660
Plan participant's contributions	103,572	100,863
Benefits paid	(143,170)	(344,523)
Fair value of plan assets - end of year	-	-
Reconciliation:		
Funded status	($2,178,067)	($1,755,564)
Accrued OPRB costs	($2,178,067)	($1,755,564)
Assumptions:		
Discount rate	5.25%	5.50%

Net periodic postretirement costs for 2008, 2007, and 2006 include the following components:

For the Years Ended December 31,	2008	2007	2006
Components of net periodic postretirement cost:			
Service cost	$2,826	$6,203	$9,194
Interest cost	114,282	101,776	93,924
Amortization of:			
Transition obligation	-	-	22,282
Actuarial loss	289,838	166,423	144,694
Net periodic postretirement cost	$406,946	$274,402	$270,094

The health care inflation rate for 2008 used to calculate the benefit obligation is assumed to be five percent for medical and six percent for prescription drugs. A one–percentage-point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $347,300 as of January 1, 2009, and would increase the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2009 by approximately $20,000. A one-percentage-point decrease in the health care inflation rate from the assumed rate would decrease the accumulated postretirement benefit obligation by approximately $282,500 as of January 1, 2009, and would decrease the aggregate of the service cost and interest cost components of the net periodic

postretirement benefit cost for 2009 by approximately $16,000. The measurement dates were December 31, 2008 and 2007.

Estimated Future Benefit Payments

The schedule below shows the estimated future benefit payments for each of the years 2009 through 2013 and the aggregate of the next five years for each of the plans previously described.

	Defined Benefit Pension Plan [1]	Pension Supplemental Executive Retirement [2]	Other Post-Retirement Benefits [2]
2009	$1,116,199	$87,810	$224,683
2010	936,064	805,978	237,850
2011	441,760	84,623	215,670
2012	1,351,260	82,833	226,548
2013	491,266	80,911	220,874
Years 2014 through 2018	3,643,521	585,796	1,201,769

[1] The pension plan is funded; therefore, benefit payments are expected to be paid out of the plan assets.
[2] Benefit payments are expected to be paid out of the general funds of the Company.

In 2009, the Company expects to contribute $450,000 to the Defined Pension Plan and $87,810 to the Pension SERP and $224,683 to the Other Postretirement Benefit Plan for these two plans are unfunded.

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 80 percent of eligible base compensation, subject to Internal Revenue Service limitations. These participants were eligible for the enhanced matching described below, effective January 1, 2005.

Effective January 1, 1999, the Company began offering an enhanced 401(k) Plan to all new employees, as well as existing employees who elected to no longer participate in the Defined Pension Plan. The Company makes matching contributions on up to six percent of each employee's eligible pre-tax compensation for the year, except for the employees of our Advanced Information Services segment. The match is between 100 percent and 200 percent of the employee's contribution, based on the employee's age and years of service. The first 100 percent is matched with Chesapeake common stock; the remaining match is invested in the Company's 401(k) Plan according to each employee's election options.

Effective July 1, 2006, the Company's contribution made on behalf of the Advanced Information Services segment employees, is a 50 percent matching contribution, on up to six percent of the employee's annual compensation. The matching contribution is funded in Chesapeake common stock. The Plan was also amended at the same time to enable it to receive discretionary profit-sharing contributions in the form of employee pre-tax deferrals. The extent to which the Advanced Information Services segment has any dollars available for profit-sharing is dependent upon the extent to which the segment's actual earnings exceed budgeted earnings. Any profit-sharing dollars made available to employees can be deferred into the Plan and/or paid out in the form of a bonus.

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 ("401(k) SERP") 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 can be invested among the mutual funds available for investment. These same funds are available for investment of employee contributions within the Retirement Savings Plan. All obligations arising under the 401(k) SERP are payable from the general assets of Chesapeake, although Chesapeake has established a Rabbi Trust for the 401(k) SERP. As discussed further in Note F – "Investments," to the Consolidated Financial Statements, the assets held in the Rabbi Trust had a fair value of $1.6 million and $1.9 million at December 31, 2008 and 2007, respectively. The assets of the Rabbi Trust are at all times subject to the claims of Chesapeake's general creditors.

The Company's contributions to the 401(k) plans totaled $1.55 million, $1.48 million, and $1.61 million for the years ended December 31, 2008, 2007, and 2006, respectively. As of December 31, 2008, there are 42,656 shares reserved to fund future contributions to the Retirement Savings Plan.

Deferred Compensation Plan

On December 7, 2006, the Board of Directors approved the Chesapeake Utilities Corporation Deferred Compensation Plan ("Deferred Compensation Plan"), as amended, effective January 1, 2007. The Deferred Compensation Plan is a non-qualified, deferred compensation arrangement under which certain executives and members of the Board of Directors are able to defer payment of part or all of certain specified types of compensation, including executive cash bonuses, executive performance shares, and directors' retainer and fees. At December 31, 2008, the Deferred Compensation Plan consists solely of shares of common stock related to the deferral of executive performance shares and directors' stock retainers.

Participants in the Deferred Compensation Plan are able to elect the payment of benefits to begin on a specified future date after the election is made in the form of a lump sum or annual installments. Deferrals of executive cash bonuses and directors' cash retainers and fees are paid in cash. All deferrals of executive performance shares and directors' stock retainers are paid in shares of the Company's common stock, except that cash shall be paid in lieu of fractional shares.

The Company established a Rabbi Trust in connection with the Deferred Compensation Plan. The value of the Company's stock held in the Rabbi Trust is classified within the stockholders' equity section of the Balance Sheet and has been accounted for in a manner similar to treasury stock. The amounts recorded under the Deferred Compensation Plan totaled $1.5 million and $1.4 million at December 31, 2008 and 2007, respectively.

M. Share-Based Compensation Plans

The Company accounts for its share-based compensation arrangements under SFAS No. 123R, which requires companies to record compensation costs for all share-based awards over the respective service period for employee services received in exchange for an award of equity or equity-based compensation. The compensation cost is based on the fair value of the grant on the date it was awarded. The Company currently has two share-based compensation plans, the Directors Stock Compensation Plan ("DSCP") and the Performance Incentive Plan ("PIP"), that require accounting under SFAS 123R.

The table below presents the amounts included in net income related to share-based compensation expense, for the restricted stock awards issued under the DSCP and the PIP.

For the year ended December 31,	2008	2007	2006
Directors Stock Compensation Plan	$ 180,037	$ 180,920	$ 165,340
Performance Incentive Plan	640,138	809,030	544,450
Total compensation expense	820,175	989,950	709,790
Less: tax benefit	326,585	386,080	276,820
Amounts included in net income	$ 493,590	$ 603,870	$ 432,970

Stock Options

The Company did not have any stock options outstanding at December 31, 2008 or December 31, 2007, nor were any stock options issued during 2008 and 2007.

Directors Stock Compensation Plan

Under the DSCP, each non-employee director of the Company received in 2008 an annual retainer of 650 shares of common stock and additional shares of common stock to serve as a committee chairperson. For 2008, the Corporate Governance and Compensation Committee Chairperson each received 150 additional shares of common stock and the Audit Committee Chairperson received 250 additional shares of common stock. Shares granted under the DSCP are issued in advance of the directors' service period; therefore, these shares are fully vested as of the date of the grant. The Company records a prepaid expense as of the date of the grant equal to the fair value of the shares issued and amortizes the expense equally over a service period of one year.

A summary of stock activity under the DSCP is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding — December 31, 2006	-	-
Granted	5,850	$31.38
Vested	5,850	$31.38
Forfeited	-	-
Outstanding — December 31, 2007	-	-
Granted [a]	6,161	$29.43
Vested	6,161	$29.43
Forfeited	-	-
Outstanding — December 31, 2008	-	-

(a) - On September 15, 2008, the Company added a new member to its Board of Directors. The number of shares issued to this Director for her annual retainer was prorated.

Compensation expense related to DSCP awards recorded by the Company for the years 2008, 2007, and 2006 is presented in the following table:

For the year ended December 31,	2008	2007	2006
Compensation expense for DSCP	$ 180,037	$ 180,920	$ 165,340

The weighted-average grant-date fair value of DSCP awards granted during fiscal 2008 and 2007 was $29.43 and $31.38, respectively, per share. The intrinsic values of the DSCP awards are equal to the fair market value of these awards on the date of grant. At December 31, 2008, there was $62,470 of unrecognized compensation expense related to DSCP awards that is expected to be recognized over the first four months of 2009.

As of December 31, 2008, there were 51,289 shares reserved for issuance under the terms of the Company's DSCP.

Performance Incentive Plan ("PIP")

The Company's Compensation Committee of the Board of Directors is authorized to grant key employees of the Company the right to receive awards of shares of the Company's common stock, contingent upon the achievement of established performance goals. These awards granted under the PIP are subject to certain post-vesting transfer restrictions.

In 2006 and 2007, the Board of Directors granted each executive officer equity incentive awards, which entitled each to earn shares of common stock to the extent that pre-established performance goals were achieved by the Company at the

end of a one-year performance period. For 2008, the Company adopted multi-year performance plans to be used in lieu of the one-year awards. Similar to the one-year plans, the multi-year plans will provide incentives based upon the achievement of long-term goals, development and success of the Company. The long-term goals have both market-based and performance-based conditions or targets.

The shares granted under the PIP in 2006 and 2007 are fully vested, and the fair value of each share is equal to the market price of the Company's common stock on the date of the grant. The shares granted under the 2008 long-term plans are unvested at December 31, 2008, and the fair value of each performance-based condition or target is equal to the market price of the Company's common stock on the date of the grant. For the market-based conditions, we used the Black-Scholes pricing model to estimate the fair value of each market-based award granted.

A summary of stock activity under the PIP is presented below:

	Number of Shares	Weighted Average Fair Value
Outstanding — December 31, 2006	31,140	$31.00
Granted	33,760	$29.90
Vested	12,544	$31.00
Fortfeited	6,820	$31.00
Expired	11,776	$31.00
Outstanding — December 31, 2007	33,760	$29.90
Granted	94,200	$27.71
Vested	31,094	$29.90
Fortfeited	-	-
Expired	2,666	$29.90
Outstanding — December 31, 2008	94,200	$27.71

For the years 2008 and 2007, the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities with the executives receiving the net shares. The total number of shares withheld (12,511) for 2008 was based on the value of the PIP shares on their vesting date as determined by the average of the high and low of the Company's stock price. The total number of shares withheld (2,420) for 2007 was based on the value of the PIP shares on their vesting date as determined by the closing price of the Company's stock. Total payments for the employees' tax obligations to the taxing authorities were approximately $382,650 and $69,200 in 2008 and 2007, respectively.

Compensation expense related to the PIP recorded by the Company during 2008, 2007, and 2006 is presented in the following table:

For the year ended December 31,	2008	2007	2006
Compensation expense for PIP	$ 640,138	$ 809,030	$ 544,450

The weighted-average grant-date fair value of PIP awards granted during fiscal 2008, 2007 and 2006 was $27.71, $29.90 and $31.00, respectively, per share. The intrinsic value of the PIP awards was $1,080,161 for 2008. The intrinsic values of the 2007 and 2006 PIP awards are equal to the fair market value of these awards on the date of grant.

As of December 31, 2008, there were 371,293 shares reserved for issuance under the terms of the Company's PIP.

N. Environmental Commitments and Contingencies

Chesapeake is subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require the Company to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites.

Chesapeake has participated in the investigation, assessment or remediation, and has accrued liabilities, at three former manufactured gas plant sites located in Delaware, Maryland and Florida, referred to, respectively, as the Dover Gas Light Site, the Salisbury Town Gas Light Site and the Winter Haven Coal Gas Site. The Company has also been in discussions with the Maryland Department of Environmental ("MDE") regarding a fourth former manufactured gas plant site located in Cambridge, Maryland. The following discussion provides details on each site.

Dover Gas Light Site

The Dover Gas Light site is a former manufactured gas plant site located in Dover, Delaware. On January 15, 2004, the Company received a Certificate of Completion of Work from the United States EPA regarding this site. This concluded Chesapeake's remedial action obligation related to this site and relieves Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered there, or information previously unknown to the EPA is received which indicates that the remedial action that has been taken is not sufficiently protective. These contingencies are standard and are required by the EPA in all liability settlements.

The Company has reviewed its remediation costs incurred to date for the Dover Gas Light site and has concluded that all costs incurred have been paid and recovered through rates or other parties. The Company does not expect any future environmental expenditure for this site. On February 5, 2008, the Delaware PSC granted final approval to cease the recovery of environmental costs through the Company's Environmental Rider recovery mechanism, effective November 30, 2008. Any residual balance shall be included in the Company's Gas Sales Service Rate application.

Salisbury Town Gas Light Site

In cooperation with the MDE, the Company has completed remediation of the Salisbury Town Gas Light site, located in Salisbury, Maryland, where it was determined that a former manufactured gas plant had caused localized ground-water contamination. During 1996, the Company completed construction of an Air Sparging and Soil-Vapor Extraction ("AS/SVE") system and began remediation procedures. Chesapeake has reported the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to decommission permanently the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well which is being maintained for continued product monitoring and recovery. Chesapeake has requested and is awaiting a No Further Action determination from the MDE.

Through December 31, 2008, the Company has incurred and paid approximately $2.9 million for remedial actions and environmental studies at the Salisbury Town Gas Light site. Of this amount, approximately $2.03 million has been recovered through insurance proceeds or in rates. On September 26, 2006, the Company received approval from the Maryland PSC to recover, through its rates charged to customers, $1.16 million of environmental remediation costs incurred as of that date. As of December 31, 2008, a regulatory asset of approximately $899,000 has been recorded to represent the portion of the clean-up costs not yet recovered.

Winter Haven Coal Gas Site

The Winter Haven Coal Gas site is located in Winter Haven, Florida. Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing this coal gas site. In May 1996, the Company filed with the FDEP an AS/SVE Pilot Study Work Plan (the "Work Plan") for the Winter Haven Coal Gas site. After discussions with the FDEP, the Company filed a modified Work Plan, which contained a 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 modified Work Plan, which the Company completed during the third quarter of 1999. In February 2001, the Company filed a Remedial Action Plan ("RAP") with the FDEP to address the

contamination of the subsurface soil and ground-water in a portion of the site. The FDEP approved the RAP on May 4, 2001. Construction of the AS/SVE system was completed in the fourth quarter of 2002, and the system remains fully operational.

Through December 31, 2008, the Company has incurred approximately $1.8 million of environmental costs associated with this site. At December 31, 2008, the Company had recorded a liability associated with this site of $511,000, which partially offsetting (a) approximately $268,000 collected through rates in excess of costs incurred and (b) a regulatory asset of $779,000, representing the uncollected portion of the estimated clean-up costs related to this site.

The FDEP has indicated that the Company may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the Winter Haven Coal Gas site. Based on studies performed to date, the Company objects to the FDEP's suggestion that the sediments have been contaminated and will require remediation. The Company's early estimates indicate that some of the corrective measures discussed by the FDEP may cost as much as $1 million. Given the Company's view as to the absence of ecological effects, the Company believes that cost expenditures of this magnitude are unwarranted and intends to oppose any requirement that it undertake corrective measures in the offshore sediments. Chesapeake anticipates that it will be several years before this issue is resolved. At this time, the Company has not recorded a liability for sediment remediation. The outcome of this matter cannot be predicted at this time.

Other

The Company is in discussions with the MDE regarding a manufactured gas plant site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, the Company has not recorded an environmental liability for this location.

O. Other Commitments and Contingencies

Rates and Other Regulatory Activities

The Company's natural gas distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSCs; ESNG, the Company's natural gas transmission operation, is subject to regulation by the FERC.

Delaware. On July 6, 2007, the Company filed with the Delaware PSC an application seeking approval of the following: (i) participation by the Company's Delaware commercial and industrial customers in gas supply buying pools served by third-party natural gas marketers; (ii) an annual base rate adjustment of $1,896,000 that represented approximately a 3.25 percent rate increase on average for the division's firm customers; (iii) an alternative rate design for residential customers in a defined expansion area in eastern Sussex County, Delaware; and (iv) a revenue normalization mechanism that would have mitigated the price and revenue impacts of seasonal natural gas consumption patterns on both customers and the Company. As part of that filing, the Company also proposed that the Delaware division be permitted to earn a return on equity of up to fifteen percent (15%) as an incentive to make significant capital investments to serve the growing areas of eastern Sussex County, in support of Delaware's Energy Policy, and to ensure that the Company's investors are adequately compensated for the increased risk associated with the higher levels of capital investment necessary to provide natural gas in those areas. On August 21, 2007, the Delaware PSC authorized the Company to implement charges reflecting the proposed $1,896,000 increase, effective September 4, 2007, on a temporary basis and subject to refund, pending the completion of full evidentiary hearings and a final decision by the Delaware PSC. The PSC Staff filed testimony recommending a rate decrease of $693,245. The Delaware Public Advocate recommended a rate decrease of $588,670. Neither party recommended approval of the Delaware division's other proposals mentioned above. The Delaware division disagreed with these positions in its rebuttal, which was filed on February 7, 2008. At an evidentiary hearing on July 9, 2008, the parties presented a joint proposed settlement agreement to resolve all issues in this docket, and the Delaware PSC approved this settlement agreement on September 2, 2008. The major components of the settlement include the following: (i) a rate increase for the division of $325,000, including miscellaneous fees; (ii) an overall rate of return of 8.91% and a return on equity of 10.25%; (iii) a change in depreciation rates that will reduce depreciation expense by approximately $897,000; (iv) the division will retain one hundred percent (100%) of margins on

interruptible service over 10,000 Mcf per year; interruptible customers will receive transportation service only; (v) the division will continue to share with firm service customers, through its Gas Sales Service Rates ("GSR") mechanism, eighty percent (80%) of any margins received from its Asset Manager and any off-system sales; and (vi) the residential service rate schedule will be divided into two separate schedules based on annual volumetric levels.

On September 10, 2007, the Company filed with the Delaware PSC its annual GSR Application, seeking approval to change its GSR rates, effective November 1, 2007. On October 2, 2007, the Delaware PSC authorized the Company to implement the GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Company was required by its natural gas tariff to file a revised application if its projected under-collection of gas costs for the determination period of November through October exceeded six percent (6%) of total firm gas costs. As a result of continued increases in the cost of natural gas, the Company filed with the Delaware PSC, on July 1, 2008, a supplemental GSR Application, seeking approval to change its GSR rates, effective August 1, 2008. On July 8, 2008, the Delaware PSC authorized the Company to implement the supplemental GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Delaware PSC granted final approval of both of the Delaware Division's GSR rate filings on October 7, 2008.

On November 1, 2007, the Delaware division filed with the Delaware PSC its annual Environmental Rider ("ER") rate application, to become effective December 1, 2007. The Delaware PSC granted approval of the ER rate at its regularly scheduled meeting on November 20, 2007, subject to full evidentiary hearings and a final decision. On February 5, 2008, the Delaware PSC granted final approval of the ER rates, as filed. Since all of the division's environmental expenses subject to recovery pursuant to the ER recovery mechanism will have been collected by the end of the determination period, no additional ER rate applications will be filed, and ER charges ceased to appear on customers' bills as of November 30, 2008.

On September 1, 2008, the Delaware division filed with the Delaware PSC its annual GSR Application, seeking approval to change its GSR rates, effective November 1, 2008. On September 16, 2008, the Delaware PSC authorized the Company to implement the GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Company anticipates a final decision by the Delaware PSC during the first half of 2009.

On September 29, 2008, the Delaware division filed an application with the Delaware PSC, requesting approval for the issuance of $10,000,000 of debt securities. The PSC granted approval of the issuance at its regularly scheduled meeting on October 23, 2008.

On December 2, 2008, the Delaware division filed two applications with the Delaware PSC requesting approval for a Town of Milton Franchise Fee Rider and a City of Seaford Franchise Fee Rider. These Riders will allow the division to charge all natural gas customers within the respective town and city limits the franchise fee paid by the division to the Town of Milton and City of Seaford as a condition to providing natural gas service. The PSC granted approval of both Franchise Fee Riders on January 29, 2009.

Maryland. On September 26, 2006, the Maryland PSC approved a base rate increase for the Maryland division based on an annual cost of service increase of approximately $780,000. As part of a settlement agreement in that proceeding, however, the division was required to file a depreciation study, and it did so on April 9, 2007. The division then filed formal testimony on July 10, 2007, initiating a Phase II of this proceeding and proposing a rate decrease of approximately $80,000 annually, based on lower depreciation expense. On November 29, 2007, the PSC approved a settlement agreement for a rate decrease of $132,155 based on the Company's revised approved depreciation rates, effective December 1, 2007. Under the settlement, the division reduced its depreciation expense by approximately $119,000 and its asset removal costs by approximately $167,000. The difference between the decrease in depreciation expense and the decrease in delivery service rates is due to an increase in rate case expense amortization and an increase in rates to offset the loss of margin from a large customer in Maryland.

On December 17, 2007, the Maryland PSC held an evidentiary hearing to determine the reasonableness of the Maryland division's four quarterly gas cost recovery filings during the twelve months ended September 30, 2007. No issues were raised at the hearing, and on February 7, 2008, the Maryland PSC approved, without exception, the division's four quarterly gas cost recovery filings.

On December 16, 2008, the Maryland PSC held an evidentiary hearing to determine the reasonableness of the Maryland division's four quarterly gas cost recovery filings during the twelve months ended September 30, 2008. No issues were raised at the hearing, and on December 19, 2008, the Hearing Examiner in this proceeding issued a proposed Order approving the division's four quarterly gas cost recovery filings, which became a final Order of the Maryland PSC on January 21, 2009.

Florida. In compliance with state law, the Florida division filed its 2007 Depreciation Study ("Study") with the Florida PSC on May 17, 2007. This Study, which superseded the last study performed in 2002, provided the PSC the opportunity to review and address changes in plant and equipment lives, salvage values, reserves and resulting life depreciation rates. The division responded to interrogatories regarding the Study on October 15, 2007, December 24, 2007, and February 7, 2008. Based on the recommendation issued by the PSC Staff, the Commission, at its May 20, 2008 agenda conference, approved certain revisions to the division's utility plant remaining lives, net salvage values, depreciation reserves, and depreciation rates, effective January 1, 2008. The Florida PSC issued an order on June 27, 2008, which closed this docket.

On August 15, 2008, the Company filed with the Florida PSC a petition seeking a permanent waiver of certain aspects of meter-reading rules that could prevent the Company and its customers from realizing fully the accuracy and efficiency benefits of automatic meter-reading equipment, which enables the Company to take daily meter readings remotely for every customer. Existing Commission rules, established well before automatic meter-reading technology existed, can be read to require a monthly visit to each customer to take a reading from a meter located on the customer's premises. The Commission, at its October 14, 2008 Agenda Conference, approved the Company's petition, with a minor modification requiring the Company to read all meters physically once each year. The Florida PSC issued an order on November 3, 2008 confirming its approval and a consummating order on December 2, 2008, which closed this docket.

On August 18, 2008, the Company filed with the Florida PSC a petition seeking recovery of costs incurred to implement Phase 2 of its experimental Transitional Transportation Service program. The Company incurred certain incremental, non-recurring costs from May 2007 through June 2008 ($77,980) and is projecting that it will incur additional non-recurring expenses through May 2009 ($100,000) for a total of approximately $177,980. The Company is seeking recovery of these expenses, plus applicable Regulatory Assessment Fees and interest, through a fixed monthly surcharge from the two approved Transitional Transportation Service Shippers on the Company's system. The Florida PSC approved the Company's petition at its October 14, 2008 Agenda Conference. The PSC issued an order on November 3, 2008, and a consummating order on November 26, 2008, which closed this docket.

ESNG. ESNG had the following regulatory activity with the FERC regarding the expansion of its transmission system:

System Expansion 2006 – 2008. On November 15, 2007, ESNG requested FERC authorization to commence construction of facilities (approximately nine miles) included in the third phase of the 2006-08 System Expansion. The FERC granted this authorization on January 7, 2008. Construction began in January 2008, and the facilities were completed and have been placed in service. The 2008 facilities provide 5,650 Dts of additional firm service capacity per day and an annualized gross margin contribution of approximately $988,000. ESNG has until June 2009 to construct the remaining facilities that were included in the 2006-08 System Expansion filing with the FERC, that will provide for the remaining 7,200 Dts of additional firm service capacity approved by the FERC, and which will permit ESNG to earn additional annualized gross margin of approximately $1. million.

E3 Project. In 2006, ESNG proposed to develop, construct and operate approximately 75 miles of new pipeline facilities to transport natural gas from the existing Cove Point Liquefied Natural Gas terminal located in Calvert

County, Maryland, crossing under the Chesapeake Bay into Dorchester and Caroline Counties, Maryland, to points on the Delmarva Peninsula, where such facilities would interconnect with ESNG's existing facilities in Sussex County, Delaware.

On May 31, 2006, ESNG entered into Precedent Agreements (the "Precedent Agreements") with Delmarva Power & Light Co. and Chesapeake, through its Delaware and Maryland divisions, to provide additional firm transportation services upon completion of the E3 Project. Both Chesapeake and Delmarva Power & Light Co. are parties to existing firm natural gas transportation service agreements with ESNG, and each desired additional firm transportation service under the E3 Project, as evidenced by the Precedent Agreements. Pursuant to the Precedent Agreements, the parties agreed to proceed with the required initiatives to obtain the governmental and regulatory authorizations necessary for ESNG to provide, and for Chesapeake and Delmarva Power & Light Co. to utilize, additional firm transportation service under the E3 Project.

As part of the Precedent Agreements, ESNG, Chesapeake and Delmarva Power & Light Co. also entered into Letter Agreements, which provide that, if the E3 Project is not certificated and placed in service, Chesapeake and Delmarva Power & Light Co. will each pay its proportionate share of certain pre-certification costs by means of a negotiated surcharge over a period of not less than 20 years.

In furtherance of the E3 Project, ESNG submitted a petition to the FERC on June 27, 2006, seeking approval of the pre-construction cost agreements as part of a rate-related Settlement Agreement (the "Settlement Agreement"), which would provide benefits to ESNG and its customers, including but not limited to: (1) advancement of a necessary infrastructure project to meet the growing demand for natural gas on the Delmarva Peninsula; (2) sharing of project development costs by the participating customers in the E3 Project; and (3) no development cost risk for non-participating customers. On August 1, 2006, the FERC approved the Settlement Agreement. On September 6, 2006, ESNG submitted to the FERC proposed tariff sheets to implement the provisions of the Settlement Agreement. By Letter Order dated October 6, 2006, the FERC accepted the tariff sheets, effective September 7, 2006.

On April 23, 2007, ESNG submitted to the FERC its request to commence a pre-filing process, and on May 15, 2007, the FERC notified ESNG that its request had been approved. The pre-filing process was intended to engage all interested and affected stakeholders early in the process with the intention of resolving all environmental issues prior to the formal certificate application being filed. As part of this process, ESNG performed environmental, engineering and cultural surveys and studies in the interest of protecting the environment, minimizing any potential impacts to landowners, and cultural resources. ESNG also held meetings with federal, state and local permitting/regulatory agencies, non-governmental organizations, landowners, and other interested stakeholders.

As part of an updated engineering study, ESNG received additional construction cost estimates for the E3 Project, which indicated substantially higher costs than previously estimated. In an effort to optimize the feasibility of the overall project development plan, ESNG explored all potential construction methods, construction cost mitigation strategies, potential design changes and project schedule changes. ESNG also held discussions and meetings with several potential new customers, who expressed interest in the E3 Project, but elected not to participate.

On December 20, 2007, ESNG withdrew from the pre-filing process as a result of insufficient customer commitments for capacity to make the project economical. ESNG will continue to explore potential construction methods, construction cost mitigation strategies, additional market requests, and potential design changes in its efforts to improve the overall economics of the E3 project.

If ESNG decides to abandon the E3 Project, it will initiate billing of a pre-certification costs surcharge in accordance with the terms of the above described Precedent Agreements and Letter Agreements executed with two of its customers, which provide for these customers to reimburse ESNG for pre-certification costs incurred in connection with the E3 Project, up to a maximum amount of $2.0 million each, with interest, over a period of 20 years. As of December 31, 2008, ESNG had incurred $3.17 million of pre-certification costs relating to the E3 Project.

ESNG also had developments in the following FERC rate and certificate matters:

Natural Gas Act Section 4 General Rate Proceeding. On June 6, 2007, ESNG and interested parties reached a settlement agreement in principle on its base rate proceeding filed with the FERC on October 31, 2006. The negotiated settlement provided for an annual cost of service of $21,536,000, which reflected a pretax rate of return of 13.6 percent and a rate increase of approximately $1.07 million on an annual basis. On September 10, 2007, ESNG submitted its Settlement Offer to the Presiding Administrative Law Judge ("ALJ") for review and certification to the full Commission.

ESNG filed concurrently with its Settlement Agreement a Motion to place the settlement rates into effect on September 1, 2007, in order to expedite the implementation of the reduced settlement rates pending final approval of the settlement. The FERC issued an order on September 25, 2007, authorizing ESNG to commence billing its settlement rates, effective September 1, 2007.

On October 1, 2007, the Presiding ALJ forwarded to the full Commission an order certifying the uncontested Settlement Agreement as fair, reasonable, and in the public interest. A final FERC Order approving the settlement was issued on January 31, 2008. In compliance with the Settlement Agreement, refunds, inclusive of interest, totaling $1.26 million, based on the higher interim rates that were effective for the period from May 15, 2007 through August 31, 2007, were distributed to ESNG's customers on February 1, 2008.

Interruptible Revenue Sharing. On May 15, 2008, ESNG submitted its annual Interruptible Revenue Sharing Report to the FERC. In this filing, ESNG reported that, since its interruptible service revenue exceeded its annual threshold amount, it refunded a total of $63,675 in the second quarter of 2008 to its eligible firm service customers in accordance with the terms of its tariff and the rate case Settlement Agreement described above.

Fuel Retention Percentage and Cash Out. On June 24, 2008, ESNG submitted its annual Fuel Retention Percentage and Cash-Out Surcharge filings to the FERC. In these filings, ESNG proposed to retain its current Fuel Retention Percentage rate of zero percent and also a zero rate for its Cash-Out Surcharge. ESNG also proposed to refund a total of $412,013, including interest, to its eligible customers in the third quarter of 2008 as a result of netting its over-recovered Gas Required for Operations against its under-recovered Cash-Out Cost. The FERC approved these proposals on July 11, 2008, and customer refunds were distributed that same month.

Prior Notice Activity - Blanket Certificate Authority. On July 2, 2008, ESNG submitted to the FERC a Prior Notice filing under its Blanket Certificate Authority to add a new delivery point to serve an industrial customer located in Seaford, Delaware. In accordance with FERC regulations, a Prior Notice filing requires a 60-day window for protests. No protests were received, and ESNG was authorized to construct and operate the new delivery point. In mid-October and prior to the commencement of any construction, the customer notified ESNG that, based on adverse developments affecting the market for its products, it did not require the new delivery point. Pursuant to a pre-construction contract between the parties, the customer reimbursed ESNG a total of $500,000 for pre-construction costs incurred by ESNG as it pursued this project.

Natural Gas and Propane Supply

The Company's natural gas and propane distribution operations have entered into contractual commitments to purchase gas from various suppliers. The contracts have various expiration dates. In March 2008, the Company renewed its contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. This contract expires on March 31, 2009. PESCO is currently in the process of obtaining and reviewing proposals from suppliers and anticipates executing agreements before the existing agreements expire in May 2009.

Corporate Guarantees

The Company has issued corporate guarantees to certain vendors of its subsidiaries, the largest portion of which are for the Company's propane wholesale marketing subsidiary and its natural gas supply management subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. None of these subsidiaries has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in the Consolidated Financial Statements when incurred. The aggregate amount guaranteed at December 31, 2008 was $22.2 million, with the guarantees expiring on various dates in 2009.

In addition to the corporate guarantees, the Company has issued a letter of credit to its primary insurance company for $775,000, which expires on May 31, 2009. The letter of credit is provided as security to satisfy the deductibles under the Company's various insurance policies. There have been no draws on this letter of credit as of December 31, 2008.

Internal Revenue Service Examination

In November 2007, the Internal Revenue Service ("IRS") initiated an examination of our consolidated federal tax return for the year ended December 31, 2005. During the review, the IRS expanded its examination to include our 2006 consolidated federal tax return as well.

In September 2008, the IRS completed its examination of our 2005 and 2006 consolidated federal tax returns and issued its Examination Report. As a result of the examination, the Company reduced its income tax receivable by $27,000 for the tax liability associated with disallowed expense deductions included on the tax returns. The Company has amended its 2005 and 2006 federal and state corporate income tax returns to reflect the disallowed expense deductions.

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 proceedings 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, results of operations or cash flows of the Company.

P. 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 and to disclose OnSight as a discontinued operation. The quarterly information shown has been adjusted to reflect the reclassification of OnSight's operations for all periods presented. 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
2008				
Operating Revenue	**$100,273,502**	**$69,056,959**	**$49,698,013**	**$72,415,004**
Operating Income	**$14,040,715**	**$4,329,439**	**$1,170,393**	**$8,938,386**
Net Income (Loss)	**$7,574,343**	**$1,818,924**	**($198,298)**	**$4,412,291**
Earnings per share:				
Basic	**$1.11**	**$0.27**	**($0.03)**	**$0.65**
Diluted	**$1.10**	**$0.27**	**($0.03)**	**$0.64**
2007				
Operating Revenue	$93,526,891	$52,501,920	$41,418,718	$70,838,968
Operating Income	$14,613,572	$3,698,066	$985,634	$8,816,310
Net Income (Loss)	$7,991,088	$1,481,791	($355,898)	$4,080,730
Earnings per share:				
Basic	$1.19	$0.22	($0.05)	$0.60
Diluted	$1.18	$0.22	($0.05)	$0.60

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated the Company's "disclosure controls and procedures" (as such term is defined under Rule 13a-15(e) and 15d – 15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of December 31, 2008. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2008.

Changes in Internal Controls

There has been no change in internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended December 31, 2008, that materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

CEO and CFO Certifications

The Company's Chief Executive Officer and Chief Financial Officer have filed with the SEC the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31.1 and 31.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. In addition, on May 20, 2008, the Company's Chief Executive Officer certified to the NYSE that he was not aware of any violation by the Company of the NYSE corporate governance listing standards.

Management's Report on Internal Control Over Financial Reporting

The report of management required under this Item 9A is contained in Item 8 of this Form 10-K under the caption "Management's Report on Internal Control over Financial Reporting."

Our independent auditors, Beard Miller Company LLP, have audited and issued their report on effectiveness of the Company's internal control over financial reporting. That report appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

We have audited Chesapeake Utilities Corporation's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Chesapeake Utilities Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting appearing under Item 8. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Chesapeake Utilities Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Chesapeake Utilities Corporation as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, cash flows and income taxes for the years then ended, and our report dated March 9, 2009 expressed an unqualified opinion.

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

ITEM 9B. OTHER INFORMATION.

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS OF THE REGISTRANT AND CORPORATE GOVERNANACE.

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Proposal I – Election of Directors," "Information Regarding the Board of Directors and Nominees," "Corporate Governance Practices and Stockholder Communications – Nomination of Directors," "Committees of the Board – Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed not later than March 31, 2009, in connection with the Company's Annual Meeting to be held on May 6, 2009.

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 this report following Item 4, as Item 4A, under the caption "Executive Officers of the Company."

The Company has adopted a Code of Ethics for Financial Officers, which applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. The information set forth under Item 1 hereof concerning the Code of Ethics for Financial Officers is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Director Compensation," "Executive Compensation" and "Compensation Discussion and Analysis" in the Proxy Statement to be filed not later than March 31, 2009, in connection with the Company's Annual Meeting to be held on May 6, 2009.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Beneficial Ownership of Chesapeake's Securities" to be filed not later than March 31, 2009, in connection with the Company's Annual Meeting to be held on May 6, 2009.

The following table sets forth information, as of December 31, 2008, with respect to compensation plans of Chesapeake and its subsidiaries, under which shares of Chesapeake common stock are authorized for issuance:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
Equity compensation plans approved by security holders	-	-	446,632	(1)
Equity compensation plans not approved by security holders	- (2)	-	-	
Total	-	-	446,632	

(1) Includes 371,293 shares under the 2005 Performance Incentive Plan, 51,289 shares available under the 2005 Directors Stock Compensation Plan, and 24,050 shares available under the 2005 Employee Stock Awards Plan.

(2) All warrants were exercised in 2006.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

None

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated herein by reference to the portion of the Proxy Statement, captioned "Fees and Services of the Independent Public Accounting Firm," to be filed not later than March 31, 2009, in connection with the Company's Annual Meeting to be held on May 6, 2009.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

1. **Financial Statements:**

- Report of Independent Registered Public Accounting Firm;
- Consolidated Statements of Income for each of the three years ended December 31, 2008, 2007, and 2006;
- Consolidated Balance Sheets at December 31, 2008 and December 31, 2007;
- Consolidated Statements of Cash Flows for each of the three years ended December 31, 2008, 2007, and 2006;
- Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2008, 2007, and 2006;
- Consolidated Statements of Income Taxes for each of the three years ended December 31,2008, 2007, and 2006;
- Notes to the Consolidated Financial Statements.

2. **Financial Statement Schedule:**

- Report of Independent Registered Public Accounting Firm; and
- 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.

3. **Exhibits**

- Exhibit 1.1 Underwriting Agreement entered into by Chesapeake Utilities Corporation and Robert W. Baird & Co. Incorporated and A.G. Edwards & Sons, Inc., on November 15, 2007, relating to the sale and issuance of 600,300 shares of the Company's common stock, is incorporated herein by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K, filed November 16, 2007, File No. 001-11590.
- Exhibit 3.1 Restated 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 3.2 Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective December 11, 2008, are filed herewith.
- Exhibit 4.1 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 4.2 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 SEC upon request.
- Exhibit 4.3 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 in 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 SEC upon request.

- Exhibit 4.4 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 in 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 SEC upon request.

- Exhibit 4.5 Note Agreement entered into by the Company on October 31, 2002, pursuant to which the Company privately placed $30 million of its 6.64% Senior Notes, due in 2017, is incorporated herein by reference to Exhibit 2 of the Company's Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.

- Exhibit 4.6 Note Agreement entered into by the Company on October 18, 2005, pursuant to which the Company, on October 12, 2006, privately placed $20 million of its 5.5% Senior Notes, due in 2020, with Prudential Investment Management, Inc., is incorporated herein by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, File No. 001-11590.

- Exhibit 4.7 Note Agreement entered into by the Company on October 31, 2008, pursuant to which the Company, on October 31, 2008, privately placed $30 million of its 5.93% Senior Notes, due in 2023, with General American Life Insurance Company and New England Life Insurance Company, 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 SEC upon request.

- Exhibit 4.8 Form of Senior Debt Trust Indenture between Chesapeake Utilities Corporation and the trustee for the debt securities is incorporated herein by reference to Exhibit 4.3.1 of the Company's Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.

- Exhibit 4.9 Form of Subordinated Debt Trust Indenture between Chesapeake Utilities Corporation and the trustee for the debt securities is incorporated herein by reference to Exhibit 4.3.2 of the Company's Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.

- Exhibit 4.10 Form of debt securities is incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.

- Exhibit 10.1* Chesapeake Utilities Corporation Cash Bonus Incentive Plan, dated January 1, 2005, is incorporated herein by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.

- Exhibit 10.2* Chesapeake Utilities Corporation Directors Stock Compensation Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005, in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.

- Exhibit 10.3* Chesapeake Utilities Corporation Employee Stock Award Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005, in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.

- Exhibit 10.4* Chesapeake Utilities Corporation Performance Incentive Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005, in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.

- Exhibit 10.5* Deferred Compensation Program (amended and restated as of January 1, 2009) is filed herewith.

- Exhibit 10.6* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.

- Exhibit 10.7* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and S. Robert Zola, is filed herewith

- Exhibit 10.8* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.

- Exhibit 10.9* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is filed herewith.

- Exhibit 10.10* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.

- Exhibit 10.11* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and Beth W. Cooper, is filed herewith.

- Exhibit 10.12* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.

- Exhibit 10.13* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and Michael P. McMasters, is filed herewith.

- Exhibit 10.14* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.

- Exhibit 10.15* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is filed herewith.

- Exhibit 10.16* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.17* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.18* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.19* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to

Exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.20* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.21* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.22* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.23* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.24* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.25* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.26* Form of Performance Share Agreement effective January 7, 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters, Beth W. Cooper, and Stephen C. Thompson, is filed herewith.
- Exhibit 10.27* Chesapeake Utilities Corporation Deferred Compensation Plan, as amended and restated effective January 1, 2009, is filed herewith.
- Exhibit 10.28* Chesapeake Utilities Corporation Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2009, is filed herewith.
- Exhibit 10.29* Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan, as amended and restated effective January 1, 2009, is filed herewith.
- Exhibit 12 Computation of Ratio of Earning to Fixed Charges is filed herewith.
- Exhibit 14.1 Code of Ethics for Financial Officers is incorporated herein by reference to Exhibit 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 14.2 Business Code of Ethics and Conduct is filed herewith.

- Exhibit 21 Subsidiaries of the Registrant is filed herewith.
- Exhibit 23.1 Consent of Independent Registered Public Accounting Firm is filed herewith.
- Exhibit 23.2 Consent of Preceding Independent Registered Public Accounting Firm for the year 2006 is filed herewith.
- Exhibit 31.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 9, 2009, is filed herewith.
- Exhibit 31.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 9, 2009, is filed herewith.
- Exhibit 32.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 9, 2009, is filed herewith.
- Exhibit 32.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 9, 2009, is 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 9, 2009

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 9, 2009

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President,
Chief Executive Officer and Director
Date: March 9, 2009

/S/ BETH W. COOPER
Beth W. Cooper, Senior Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)
Date: March 9, 2009

/S/ EUGENE H. BAYARD
Eugene H. Bayard, Director
Date: February 24, 2009

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: February 24, 2009

/S/ THOMAS J. BRESNAN
Thomas J. Bresnan, Director
Date: March 9, 2009

/S/ THOMAS P. HILL, JR.
Thomas P. Hill, Jr., Director
Date: February 24, 2009

/S/ J. PETER MARTIN
J. Peter Martin, Director
Date: February 24, 2009

/S/ JOSEPH E. MOORE, ESQ
Joseph E. Moore, Esq., Director
Date: February 24, 2009

/S/ CALVERT A. MORGAN, JR.
Calvert A. Morgan, Jr., Director
Date: February 24, 2009

/S/ DIANNA F. MORGAN
Dianna F. Morgan, Director
Date: February 24, 2009

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

The audit referred to in our report dated March 9, 2009 relating to the consolidated financial statements of Chesapeake Utilities Corporation as of December 31, 2008 and 2007 and for the years then ended, which is contained in Item 8 of this Form 10-K also included the audits of the financial statement schedule listed in Item 15. This financial statement schedule is the responsibility of the Chesapeake Utilities Corporation's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

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					
2008	**$952,075**	**$1,185,906**	**$241,153**	**($1,220,120)**	**$1,159,014**
2007	$661,597	$818,561	$26,190	($554,273)	$952,075
2006	$861,378	$381,424	$65,519	($646,724)	$661,597

[1] Recoveries.

[2] Uncollectible accounts charged off.

EXHIBIT 12

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

For the Years Ended December 31,	2008	2007	2006	2005	2004
Income from continuing operations	**$13,607,259**	$13,217,787	$10,747,965	$10,698,811	$9,686,449
Add:					
Income taxes	**8,817,162**	8,597,461	6,999,072	6,472,220	5,771,333
Portion of rents representative of interest factor	**293,207**	245,399	226,583	278,846	309,446
Interest on indebtedness	**6,110,331**	6,539,004	5,721,912	5,076,666	5,145,243
Amortization of debt discount and expense	**47,221**	50,635	52,081	55,792	61,421
Earnings as adjusted	**$28,875,180**	$28,650,286	$23,747,613	$22,582,335	$20,973,892
Fixed Charges					
Portion of rents representative of interest factor	**$293,207**	$245,399	$226,583	$278,846	$309,446
Interest on indebtedness	**6,110,331**	6,539,004	5,721,912	5,076,666	5,145,243
Amortization of debt discount and expense	**47,221**	50,635	52,081	55,792	61,421
Fixed Charges	**$6,450,759**	$6,835,038	$6,000,576	$5,411,304	$5,516,110
Ratio of Earnings to Fixed Charges	**4.48**	4.19	3.96	4.17	3.80

EXHIBIT 21

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

Subsidiaries	State Incorporated
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Service Company	Delaware
Xeron, Inc.	Mississippi
Chesapeake OnSight Services LLC	Delaware
Peninsula Energy Services Company, Inc.	Delaware
Peninsula Pipeline Company, Inc.	Delaware

Subsidiaries of Sharp Energy, Inc.	State Incorporated
Sharpgas, Inc.	Delaware

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

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Chesapeake Utilities Corporation

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-156192, 333-63381 and 333-121524) and Form S-8 (Nos. 333-01175, 333-94159, 333-124646, 333-124694 and 333-124717) of Chesapeake Utilities Corporation of our reports dated March 9, 2009, relating to the consolidated financial statements, the effectiveness of internal control over financial reporting, and financial statement schedule of Chesapeake Utilities Corporation appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Chesapeake Utilities Corporation

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-156192, 333-63381 and 333-121524) and Form S-8 (Nos. 333-01175, 333-94159, 333-124646, 333-124694 and 333-124717) of Chesapeake Utilities Corporation of our report dated March 13, 2007 relating to the consolidated financial statements and financial statement schedule which appears in this Form 10-K.

PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
March 9, 2009

EXHIBIT 31.1

CERTIFICATE PURSUANT TO RULE 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Schimkaitis, certify that:

I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant 's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2009

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATE PURSUANT TO RULE 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Beth W. Cooper, certify that:

I have reviewed this annual report on Form 10-K of Chesapeake Utilities Corporation;

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant 's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2009

/S/ BETH W. COOPER
Beth W. Cooper
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATED OF CHIEF EXECUTIVE OFFICER
OF CHESAPEAKE UTLITIES CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PUSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2008, 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
March 9, 2009

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

CERTIFICATED OF CHIEF FINANCIAL OFFICER
OF CHESAPEAKE UTLITIES CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PUSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Beth W. Cooper, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2008, 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/ BETH W. COOPER
Beth W. Cooper
March 9, 2009

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Upon written request, Chesapeake will provide, free of charge, a copy of any exhibit to the 2008 Annual Report on Form 10-K not included in this document.

UNITED STATES
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, 2008

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 [ ]

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Common Stock, par value $0.4867 – 6,815,763 shares outstanding as of July 31, 2008.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the Three Months Ended June 30,	2008	2007
Operating Revenues	$ **69,056,959**	$ 52,501,920
Operating Expenses		
Cost of sales, excluding costs below	**48,539,716**	34,228,323
Operations	**10,742,546**	10,310,904
Terminated acquisition costs	**1,239,628**	-
Maintenance	**503,223**	564,856
Depreciation and amortization	**2,225,344**	2,367,523
Other taxes	**1,477,063**	1,332,249
Total operating expenses	**64,727,520**	48,803,855
Operating Income	**4,329,439**	3,698,065
Other income, net of other expenses	**63,507**	234,194
Interest charges	**1,388,735**	1,594,701
Income Before Income Taxes	**3,004,211**	2,337,558
Income taxes	**1,185,287**	849,877
Income from Continuing Operations	**1,818,924**	1,487,681
Loss from discontinued operations, net of tax benefit of $0 and $4,115	**-**	(5,891)
Net Income	$ **1,818,924**	$ 1,481,790
Weighted Average Shares Outstanding:		
Basic	**6,812,474**	6,737,384
Diluted	**6,920,042**	6,849,890
Earnings Per Share of Common Stock:		
Basic:		
From continuing operations	$ **0.27**	$ 0.22
From discontinued operations	**-**	-
Net Income	$ **0.27**	$ 0.22
Diluted:		
From continuing operations	$ **0.27**	$ 0.22
From discontinued operations	**-**	-
Net Income	$ **0.27**	$ 0.22
Cash Dividends Declared Per Share of Common Stock:	$ **0.305**	$ 0.295

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

For the Six Months Ended June 30,	2008	2007
Operating Revenues	**$169,330,460**	$146,028,811
Operating Expenses		
Cost of sales, excluding costs below	**119,519,896**	98,164,191
Operations	**21,512,217**	20,840,649
Terminated acquisition costs	**1,239,628**	-
Maintenance	**988,549**	1,145,019
Depreciation and amortization	**4,428,008**	4,683,319
Other taxes	**3,272,008**	2,883,996
Total operating expenses	**150,960,306**	127,717,174
Operating Income	**18,370,154**	18,311,637
Other income, net of other expenses	**81,097**	290,675
Interest charges	**2,982,106**	3,193,951
Income Before Income Taxes	**15,469,145**	15,408,361
Income taxes	**6,075,879**	5,909,199
Income from Continuing Operations	**9,393,266**	9,499,162
Loss from discontinued operations, net of tax benefit of $0 and $17,073	-	(26,284)
Net Income	**$9,393,266**	$9,472,878
Weighted Average Common Shares Outstanding:		
Basic	**6,803,892**	6,721,694
Diluted	**6,917,308**	6,835,257
Earnings Per Share of Common Stock:		
Basic		
From continuing operations	**$1.38**	$1.41
From discontinued operations	**-**	-
Net Income	**$1.38**	$1.41
Diluted		
From continuing operations	**$1.36**	$1.39
From discontinued operations	**-**	-
Net Income	**$1.36**	$1.39
Cash Dividends Declared Per Share of Common Stock:	**$0.600**	$0.585

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 30,	2008	2007
Operating Activities		
Net Income	**$9,393,266**	$9,472,879
Depreciation and amortization	**4,428,008**	4,683,318
Depreciation and accretion included in other costs	**901,099**	1,682,980
Deferred income taxes, net	**2,162,750**	1,590,955
Gain on sale of assets	**-**	(204,882)
Unrealized gain on commodity contracts	**(358,045)**	(296,892)
Unrealized loss (gain) on investments	**86,263**	(188,203)
Employee benefits and compensation	**558,159**	920,994
Other, net	**3,461**	(1,839)
Changes in assets and liabilities:		
Sale (purchase) of investments	**(88,092)**	71,432
Accounts receivable and accrued revenue	**(11,632,776)**	6,961,621
Propane inventory, storage gas and other inventory	**(229,499)**	2,781,638
Regulatory assets	**281,841**	597,354
Prepaid expenses and other current assets	**1,578,990**	(686,387)
Other deferred charges	**(531,731)**	(1,405,003)
Long-term receivables	**122,746**	51,557
Accounts payable and other accrued liabilities	**3,453,229**	(7,026,332)
Income taxes receivable (payable)	**1,136,846**	(139,486)
Accrued interest	**716,183**	(20,910)
Customer deposits and refunds	**(1,003,221)**	361,078
Accrued compensation	**(1,042,081)**	(401,493)
Regulatory liabilities	**(384,659)**	1,798,097
Other liabilities	**89,916**	15,582
Net cash provided by operating activities	**9,642,653**	20,618,058
Investing Activities		
Property, plant and equipment expenditures	**(15,440,474)**	(15,969,557)
Proceeds from sale of assets	**-**	204,882
Environmental expenditures	**(198,754)**	(135,953)
Net cash used by investing activities	**(15,639,228)**	(15,900,628)
Financing Activities		
Common stock dividends	**(3,799,030)**	(3,465,986)
Issuance of stock for Dividend Reinvestment Plan	**15,338**	174,314
Change in cash overdrafts due to outstanding checks	**(128,683)**	843,845
Net borrowing (repayment) under line of credit agreements	**11,519,892**	(4,829,053)
Repayment of long-term debt	**(1,020,072)**	(1,020,132)
Net cash provided (used) by financing activities	**6,587,445**	(8,297,012)
Net Increase (decrease) in Cash and Cash Equivalents	**590,870**	(3,579,582)
Cash and Cash Equivalents — Beginning of Period	**2,592,801**	4,488,366
Cash and Cash Equivalents — End of Period	**$3,183,671**	$908,784

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	For the Six Months Ended June 30, 2008	For the Twelve Months Ended December 31, 2007
Common Stock		
Balance — beginning of period	**$3,298,473**	$3,254,998
Dividend Reinvestment Plan	**3,541**	17,197
Retirement Savings Plan	**1,073**	14,388
Conversion of debentures	**1,573**	3,945
Stock-base compensation	**11,965**	7,945
Balance — end of period	**$3,316,625**	$3,298,473
Additional Paid-in Capital		
Balance — beginning of period	**$65,591,552**	$61,960,220
Dividend Reinvestment Plan	**219,034**	1,121,190
Retirement Savings Plan	**66,704**	934,295
Conversion of debentures	**53,355**	133,839
Stock-based compensation	**179,624**	1,442,008
Tax benefit of warrants	**50,244**	-
Balance — end of period	**$66,160,513**	$65,591,552
Retained Earnings		
Balance — beginning of period	**$51,538,194**	$46,270,884
Net income	**9,393,266**	13,197,710
Cash dividends declared	**(4,086,399)**	(7,930,400)
Balance — end of period	**$56,845,061**	$51,538,194
Accumulated Other Comprehensive Loss		
Balance — beginning of period	**($851,674)**	($334,550)
Loss on funded status of Employee Benefit Plans, net of tax	-	(517,124)
Balance — end of period	**($851,674)**	($851,674)
Deferred Compensation Obligation		
Balance — beginning of period	**$1,403,922**	$1,118,509
New deferrals	**107,228**	285,413
Balance — end of period	**$1,511,150**	$1,403,922
Treasury Stock		
Balance — beginning of period	**($1,403,922)**	($1,118,509)
New deferrals related to compensation obligation	**(107,228)**	(285,413)
Purchase of treasury stock [1]	**(34,328)**	(29,771)
Sale and distribution of treasury stock [2]	**34,328**	29,771
Balance — end of period	**($1,511,150)**	($1,403,922)
Total Stockholders' Equity	**$125,470,525**	$119,576,545

[1] Amount includes shares purchased in the open market for the Company's Rabbi Trust to secure its obligations under the Company's Deferred Compensation Plan.

[2] Amount includes shares issued to the Company's Rabbi Trust as an obligation under the Deferred Compensation Plan.

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Assets	June 30, 2008	December 31, 2007
Property, Plant and Equipment		
Natural gas	**$296,681,205**	$289,706,066
Propane	**49,647,049**	48,506,231
Advanced information services	**1,234,107**	1,157,808
Other plant	**10,486,075**	8,567,833
Total property, plant and equipment	**358,048,436**	347,937,938
Less: Accumulated depreciation and amortization	**(96,835,370)**	(92,414,289)
Plus: Construction work in progress	**9,749,213**	4,899,608
Net property, plant and equipment	**270,962,279**	260,423,257
Investments	**1,911,100**	1,909,271
Current Assets		
Cash and cash equivalents	**3,183,671**	2,592,801
Accounts receivable (less allowance for uncollectible accounts of $944,898 and $952,075, respectively)	**86,639,996**	72,218,191
Accrued revenue	**2,476,445**	5,265,474
Propane inventory, at average cost	**8,143,492**	7,629,295
Other inventory, at average cost	**1,131,474**	1,280,506
Regulatory assets	**1,018,750**	1,575,072
Storage gas prepayments	**5,906,504**	6,042,169
Income taxes receivable	**150,836**	1,237,438
Deferred income taxes	**1,920,098**	2,155,393
Prepaid expenses	**1,917,178**	3,496,517
Mark-to-market energy assets	**7,014,698**	7,812,456
Other current assets	**146,603**	146,253
Total current assets	**119,649,745**	111,451,565
Deferred Charges and Other Assets		
Goodwill	**674,451**	674,451
Other intangible assets, net	**171,171**	178,073
Long-term receivables	**617,934**	740,680
Regulatory assets	**2,778,159**	2,539,235
Other deferred charges	**4,146,654**	3,640,480
Total deferred charges and other assets	**8,388,369**	7,772,919
Total Assets	**$400,911,493**	$381,557,012

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

Capitalization and Liabilities	June 30, 2008	December 31, 2007
Capitalization		
Stockholders' equity		
Common Stock, par value $0.4867 per share		
(authorized 12,000,000 shares)	**$3,316,625**	$3,298,473
Additional paid-in capital	**66,160,513**	65,591,552
Retained earnings	**56,845,061**	51,538,194
Accumulated other comprehensive loss	**(851,674)**	(851,674)
Deferred compensation obligation	**1,511,150**	1,403,922
Treasury stock	**(1,511,150)**	(1,403,922)
Total stockholders' equity	**125,470,525**	119,576,545
Long-term debt, net of current maturities	**63,180,636**	63,255,636
Total capitalization	**188,651,161**	182,832,181
Current Liabilities		
Current portion of long-term debt	**6,656,364**	7,656,364
Short-term borrowing	**57,055,153**	45,663,944
Accounts payable	**58,826,720**	54,893,071
Customer deposits and refunds	**9,033,699**	10,036,920
Accrued interest	**1,581,687**	865,504
Dividends payable	**2,078,518**	1,999,343
Accrued compensation	**2,358,031**	3,400,112
Regulatory liabilities	**5,929,229**	6,300,766
Mark-to-market energy liabilities	**6,477,672**	7,739,261
Other accrued liabilities	**2,706,335**	2,500,542
Total current liabilities	**152,703,408**	141,055,827
Deferred Credits and Other Liabilities		
Deferred income taxes	**30,723,340**	28,795,885
Deferred investment tax credits	**256,560**	277,698
Regulatory liabilities	**973,185**	1,136,071
Environmental liabilities	**750,596**	835,143
Other pension and benefit costs	**2,535,976**	2,513,030
Accrued asset removal cost	**20,366,122**	20,249,948
Other liabilities	**3,951,145**	3,861,229
Total deferred credits and other liabilities	**59,556,924**	57,669,004
Other Commitments and Contingencies (Note 4)		
Total Capitalization and Liabilities	**$400,911,493**	$381,557,012

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

References in this document to "the Company," "Chesapeake," "we," "us" and "our" are intended to mean Chesapeake Utilities Corporation and its subsidiaries.

The accompanying unaudited condensed consolidated financial statements have been prepared in compliance with the rules and regulations of the Securities and Exchange Commission ("SEC") and United States of America Generally Accepted Accounting Principles ("GAAP"). In accordance with these rules and regulations, certain information and disclosures normally required for audited financial statements have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in the Company's latest Annual Report on Form 10-K filed with the SEC on March 10, 2008. In the opinion of management, these statements reflect normal recurring adjustments that are necessary for a fair presentation of the Company's results of operations, financial position and cash flows for the interim periods presented.

2. Comprehensive Income

Comprehensive income contains items that are excluded from net income and recorded directly to stockholders' equity. For the first six months of 2008 and 2007, Chesapeake did not have any adjustments to comprehensive income that are required to be reported by Financial Accounting Standards Board ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." Accumulated other comprehensive loss was $851,674 at June 30, 2008 and December 31, 2007.

3. Calculation of Earnings Per Share

	Three Months Ednded		Six Months Ednded	
For the Periods Ended June 30,	**2008**	**2007**	**2008**	**2007**
Calculation of Basic Earnings Per Share:				
Net Income	**$1,818,924**	$1,481,790	**$9,393,266**	$9,472,879
Weighted average shares outstanding	**6,812,474**	6,737,384	**6,803,892**	6,721,694
Basic Earnings Per Share	**$0.27**	$0.22	**$1.38**	$1.41
Calculation of Diluted Earnings Per Share:				
Reconciliation of Numerator:				
Net Income	**$1,818,924**	$1,481,790	**$9,393,266**	$9,472,879
Effect of 8.25% Convertible debentures (1)	**22,306**	24,015	**45,114**	48,214
Adjusted numerator — Diluted	**$1,841,230**	$1,505,805	**$9,438,380**	$9,521,093
Reconciliation of Denominator:				
Weighted shares outstanding — Basic	**6,812,474**	6,737,384	**6,803,892**	6,721,694
Effect of dilutive securities (1):				
Restricted Stock	**2,780**	-	**7,449**	-
8.25% Convertible debentures	**104,788**	112,506	**105,967**	113,563
Adjusted denominator — Diluted	**6,920,042**	6,849,890	**6,917,308**	6,835,257
Diluted Earnings Per Share	**$0.27**	$0.22	**$1.36**	$1.39

(1) Amounts associated with conversion of securities that result in an anti-dilutive effect on earnings per share are not included in this calculation.

4. Commitments and Contingencies

Rates and Regulatory Matters

The Company's natural gas distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective state Public Service Commissions ("PSC's"). Eastern Shore Natural Gas Company ("Eastern Shore"), the Company's natural gas transmission operation, is subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Delaware. On July 6, 2007, the Company filed with the Delaware PSC an application seeking approval of the following: (i) participation by the Company's Delaware commercial and industrial customers in gas supply buying pools served by third-party natural gas marketers; (ii) an annual base rate adjustment of $1,896,000 that represents approximately a 3.25 percent rate increase on average for the Delaware division's firm customers; (iii) an alternative rate design for residential customers in a defined expansion area in eastern Sussex County, Delaware; and (iv) a revenue normalization mechanism that mitigates the price and revenue impacts of seasonal natural gas consumption patterns on both customers and the Company. As part of that filing, the Company also proposed that the Delaware division be permitted to earn a return on equity of up to fifteen percent (15%) as an incentive to make the significant capital investments to serve the growing areas of eastern Sussex County, in support of Delaware's Energy Policy, and to ensure that the Company's investors are adequately compensated for the increased risk associated with the higher levels of capital investment necessary to provide natural gas in those areas. On August 21, 2007, the Delaware PSC authorized the Company to implement charges reflecting the proposed $1,896,000 increase effective September 4, 2007, on a temporary basis and subject to refund, pending the completion of full evidentiary hearings and a final decision by the Delaware PSC. The Delaware PSC Staff filed testimony recommending a rate decrease of $693,245. The Delaware Public Advocate ("DPA") recommended a rate decrease of $588,670. Neither party recommended approval of the Delaware division's other proposals mentioned above. The Delaware division disagreed with these positions in its rebuttal, which was filed on February 7, 2008. At an evidentiary hearing on July 9, 2008, the parties presented a proposed settlement agreement that would effectively resolve all issues in this docket. The major components of the proposed settlement include the following: (i) a rate increase for the Delaware division of $325,000, including miscellaneous fees; (ii) an overall rate of return of 8.91% and a return on equity of 10.25%; (iii) a change in depreciation rates that results in a reduction in depreciation expense of approximately $897,000; (iv) the Delaware division would be permitted to retain 100% of all interruptible margins, there would be a minimum usage threshold for interruptible service of 10,000 Mcf per year, and all interruptible customers would be required to transport; (v) the Delaware division would continue to share any margins received from its Asset Manager and any off-system sales on an 80%/20% basis, with 80% being returned to the firm customers through the GSR mechanism; (vi) the residential service rate schedule would be divided into two separate schedules based on annual volumetric levels; (vii) individual customers with multiple meters would be able to aggregate meters in order to qualify for transportation service; and (viii) the Delaware division would have the ability to aggregate main extension projects over 500 feet at the time of its next base rate proceeding to determine rate base treatment. The Delaware division anticipates a final decision by the Delaware PSC during the third quarter of 2008.

On September 10, 2007, the Company filed with the Delaware PSC its annual Gas Service Revenue ("GSR") Application, seeking approval to change its GSR rates effective for service rendered on and after November 1, 2007. On October 2, 2007, the Delaware PSC authorized the Company to implement the GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Company is required by its natural gas tariff to file a revised application if its projected under-collection of gas costs for the determination period of November through October exceeds six percent (6%) of total firm gas costs. As a result of continued increases in the cost of natural gas, on July 1, 2008, the Company filed with the Delaware PSC a supplemental GSR Application, seeking approval to change its GSR rates effective for service rendered on and after August 1, 2008. On July 8,

2008, the Delaware PSC authorized the Company to implement the revised GSR charges on a temporary basis, subject to refund, pending the completion of full evidentiary hearings and a final decision. The Delaware division anticipates a final decision by the Delaware PSC on both filings during the fourth quarter of 2008.

On November 1, 2007, the Delaware division filed with the Delaware PSC its annual Environmental Rider ("ER") rate application to become effective for service rendered on and after December 1, 2007. The Delaware PSC granted approval of the ER rate at its regularly scheduled meeting on November 20, 2007, subject to full evidentiary hearings and a final decision. On February 5, 2008, the Delaware PSC granted final approval of the ER rates as filed. Since all of the division's environmental expenses, which are subject to recovery pursuant to the ER recovery mechanism, will have been collected by the end of the determination period, no further ER rate applications will be filed by the Delaware division, and ER charges will cease to appear on the Delaware division's customers' bills as of November 30, 2008.

Maryland. On September 26, 2006, the Maryland PSC approved a base rate increase for the Maryland division of approximately $780,000 annually. In a settlement agreement entered into in that proceeding, the Maryland division was required to file a depreciation study, which was filed on April 9, 2007. The Maryland division filed formal testimony on July 10, 2007, initiating a Phase II of this proceeding. In this filing, the Maryland division proposed a rate decrease of approximately $80,000 annually, resulting from a change in depreciation expense. On November 29, 2007, the Maryland PSC approved a settlement agreement for a rate decrease of $132,155, effective December 1, 2007, based on the change in the Company's depreciation rates. Under the settlement, the Maryland division has reduced its depreciation expense by approximately $119,000 and its cost of removal by approximately $167,000. The difference between the decrease in depreciation expense and the decrease in delivery service rates is due to an increase in rate case expense amortization and an increase to offset the loss of margin from a large customer in Maryland.

On December 17, 2007, the Maryland PSC held an evidentiary hearing to determine the reasonableness of the Maryland division's four quarterly gas cost recovery filings during the twelve months ended September 30, 2007. No issues were raised at the hearing, and on February 7, 2008, the Maryland PSC approved, without exception, the Maryland division's four quarterly gas cost recovery filings.

Florida. In compliance with state law, the Florida division filed its 2007 Depreciation Study ("Study") with the Florida PSC on May 17, 2007. This study, which supersedes the last study performed in 2002, provides the Florida PSC the opportunity to review and address changes in plant and equipment lives, salvage values, reserves and resulting life depreciation rates. The Florida division responded to interrogatories concerning the Study on October 15, 2007, December 24, 2007, and February 7, 2008. Based on the recommendation issued by the Florida PSC Staff, the Commission, at its May 20, 2008 agenda conference, approved certain revisions to the Florida division's utility plant remaining lives, net salvage values, depreciation reserves, and depreciation rates, effective January 1, 2008. These changes were not material to the financial results of the Florida division. The Florida PSC issued an order on June 27, 2008, which closes this docket.

Eastern Shore. Eastern Shore had the following regulatory activity with the FERC regarding the expansion of its transmission system:

System Expansion 2006 – 2008. On November 15, 2007, Eastern Shore requested FERC authorization to commence construction of facilities (approximately 9.2 miles) included in the third phase of the 2006-08 System Expansion. The FERC granted this authorization on January 7, 2008. Construction began in the first quarter of 2008, and the facilities are to be completed and placed in service by November 1, 2008. These Phase III facilities will provide 5,650 Dekatherms ("Dts") of additional firm service capacity per day and annualized gross margin contribution of approximately $1.0 million.

Eastern Shore Energylink Expansion Project ("E3 Project"). In 2006, Eastern Shore proposed to develop, construct and operate approximately 75 miles of new pipeline facilities to transport natural gas from the existing Cove Point liquefied natural gas ("LNG") terminal located in Calvert County, Maryland, crossing under the Chesapeake Bay into Dorchester and Caroline Counties, Maryland, to points on the Delmarva Peninsula, where such facilities would interconnect with Eastern Shore's existing facilities in Sussex County, Delaware.

On May 31, 2006, Eastern Shore entered into Precedent Agreements (the "Precedent Agreements") with Delmarva Power & Light Company ("Delmarva") and Chesapeake, through its Delaware and Maryland divisions, to provide additional firm transportation services upon completion of the E3 Project. Both Chesapeake and Delmarva are parties to existing firm natural gas transportation service agreements with Eastern Shore, and each desired additional firm transportation service under the E3 Project, as evidenced by the Precedent Agreements. Pursuant to the Precedent Agreements, the parties agreed to proceed with the required initiatives to obtain the governmental and regulatory authorizations necessary for Eastern Shore to provide, and for Chesapeake and Delmarva to utilize, additional firm transportation service under the E3 Project.

As part of the Precedent Agreements, Eastern Shore, Chesapeake and Delmarva also entered into Letter Agreements which provide that, if the E3 Project is not certificated and placed in service, Chesapeake and Delmarva will each pay its proportionate share of certain pre-certification costs by means of a negotiated surcharge over a period of not less than 20 years.

In furtherance of the E3 Project, Eastern Shore submitted a petition to the FERC on June 27, 2006, seeking approval of the pre-construction cost agreements as part of a rate-related Settlement Agreement (the "Settlement Agreement"), which would provide benefits to Eastern Shore and its customers, including but not limited to: (1) advancement of a necessary infrastructure project to meet the growing demand for natural gas on the Delmarva Peninsula; (2) sharing of project development costs by the participating customers in the project; and (3) no development cost risk for non-participating customers. On August 1, 2006, the FERC approved the Settlement Agreement. On September 6, 2006, Eastern Shore submitted to FERC proposed tariff sheets to implement the provisions of the Settlement Agreement. By Letter Order dated October 6, 2006, the FERC accepted the tariff sheets, effective September 7, 2006.

On April 23, 2007, Eastern Shore submitted to the FERC its request to commence a pre-filing process, and on May 15, 2007, the FERC notified Eastern Shore that its request had been approved. The pre-filing process was intended to engage all interested and affected stakeholders early in the process with the intention of resolving all environmental issues prior to the formal certificate application being filed. As part of this process, Eastern Shore performed environmental, engineering and cultural surveys and studies in the interest of protecting the environment, minimizing any potential impacts to landowners, and cultural resources. Eastern Shore also held meetings with federal, state and local permitting/regulatory agencies, non-governmental organizations, landowners, and other interested stakeholders.

As part of an updated engineering study, Eastern Shore received additional construction cost estimates for the E3 project, which indicated substantially higher costs than previously estimated. In an effort to optimize the feasibility of the overall project development plan, Eastern Shore explored all

potential construction methods, construction cost mitigation strategies, potential design changes and project schedule changes. Eastern Shore also held discussions and meetings with several potential new customers, who expressed interest in the project, but elected not to participate.

On December 20, 2007, Eastern Shore withdrew from the pre-filing process as a result of insufficient customer commitments for capacity to make the project economical. Eastern Shore will continue to explore potential construction methods, construction cost mitigation strategies, additional market requests, and potential design changes in its efforts to improve the overall economics of the project.

If Eastern Shore decides to abandon the E3 Project, it will initiate billing of a pre-certification costs surcharge in accordance with the terms of the Precedent Agreements executed with two of its customers, which provide for these customers to reimburse Eastern Shore for pre-certification costs incurred in connection with the E3 Project, up to a maximum amount of $2.0 million each, with interest, over a period of 20 years. As of June 30, 2008, the Company had incurred $3.18 million of pre-certification costs relating to the E3 Project.

Eastern Shore also had developments in the following FERC rate and certificate matters:

On June 6, 2007, Eastern Shore and interested parties reached a settlement agreement in principle on its base rate proceeding filed with the FERC on October 31, 2006. The negotiated settlement provides for an annual cost of service of $21,536,000, which reflects a pretax rate of return of 13.6 percent and a rate increase of approximately $1.07 million on an annual basis. On September 10, 2007, Eastern Shore submitted its Settlement Offer to the Presiding Administrative Law Judge ("ALJ") for review and certification to the full Commission.

Eastern Shore filed concurrently with its Settlement Agreement a Motion to place the settlement rates into effect on September 1, 2007, in order to expedite the implementation of the reduced settlement rates pending final approval of the settlement. The Commission issued an order on September 25, 2007, authorizing Eastern Shore to commence billing its settlement rates, effective September 1, 2007.

On October 1, 2007, the Presiding ALJ forwarded to the full Commission an order certifying the uncontested Settlement Agreement as fair, reasonable, and in the public interest. A final Commission Order approving the settlement was issued on January 31, 2008. In compliance with the Settlement Agreement, refunds, inclusive of interest, totaling $1.26 million, based on the higher interim rates that were effective for the period from May 15, 2007 through August 31, 2007, were distributed to Eastern Shore's customers on February 1, 2008.

On May 15, 2008, Eastern Shore submitted its annual Interruptible Revenue Sharing Report to the FERC. Eastern Shore reported in this filing that its interruptible revenue was in excess of its annual threshold amount and refunded a total of $63,675 in the second quarter of 2008 to its eligible firm customers.

On June 24, 2008, Eastern Shore submitted its annual Fuel Retention Percentage ("FRP") and Cash-Out Surcharge filings to the FERC. In these filings, Eastern Shore proposed to retain its current FRP rate of zero percent and also a zero rate for its Cash-Out Surcharge. Eastern Shore also proposed to refund a total of $ 412,013, including interest, to its eligible customers in the third quarter of 2008 as a result of netting its over-recovered Gas Required for Operations against its under-recovered Cash-Out Cost. The FERC approved these proposals on July 11, 2008.

Environmental Matters

Chesapeake is subject to federal, state and local laws and regulations governing environmental quality and pollution control. These laws and regulations require the Company to remove or remedy the effect on the environment of the disposal or release of specified substances at current and former operating sites.

In 2004, Chesapeake received a Certificate of Completion for the remedial work performed at a former manufactured gas plant site located in Dover, Delaware. Chesapeake is also currently participating in the investigation, assessment or remediation of two additional former manufactured gas plant sites located in Maryland and Florida. The Company has accrued liabilities for the three sites, referred to, respectively, as the Dover Gas Light, Salisbury Town Gas Light and the Winter Haven Coal Gas sites. The Company has been in discussions with the Maryland Department of the Environment ("MDE") regarding a fourth former manufactured gas plant site located in Cambridge, Maryland. The following discussion provides details on each site.

Dover Gas Light Site

The Dover Gas Light site is a former manufactured gas plant site located in Dover, Delaware. On January 15, 2004, the Company received a Certificate of Completion of Work from the United States Environmental Protection Agency ("EPA") regarding this site. This concluded Chesapeake's remedial action obligation related to this site and relieves Chesapeake from liability for future remediation at the site, unless previously unknown conditions are discovered at the site, or information previously unknown to the EPA is received that indicates the remedial action that has been taken is not sufficiently protective. These contingencies are standard and are required by the EPA in all liability settlements.

The Company has reviewed its remediation costs incurred to date for the Dover Gas Light site and has concluded that all costs incurred have been paid. The Company does not expect any future environmental expenditure for this site. Through June 30, 2008, the Company has incurred approximately $9.67 million in costs related to environmental testing and remedial action studies at the site. Approximately $9.73 million has been recovered through June 2008 from other parties or through rates. As of June 30, 2008, a regulatory liability of approximately $68,000, representing the over-recovery portion of the clean-up costs, has been recorded. The over-recovery is temporary and will be refunded by the Company to customers in future rates.

Salisbury Town Gas Light Site

In cooperation with the MDE, the Company has completed remediation of the Salisbury Town Gas Light site, located in Salisbury, Maryland, where it was determined that a former manufactured gas plant had caused localized ground-water contamination. During 1996, the Company completed construction and began Air Sparging and Soil-Vapor Extraction ("AS/SVE") remediation procedures. Chesapeake has been reporting the remediation and monitoring results to the MDE on an ongoing basis since 1996. In February 2002, the MDE granted permission to decommission permanently the AS/SVE system and to discontinue all on-site and off-site well monitoring, except for one well that is being maintained for continued product monitoring and recovery. Chesapeake has requested a No Further Action determination and is awaiting such a determination from the MDE.

Through June 30, 2008, the Company has incurred approximately $2.9 million for remedial actions and environmental studies at the Salisbury Town Gas Light site. Of this amount, approximately $1.94 million has been recovered through insurance proceeds or in rates. On September 26, 2006, the Company received approval from the Maryland PSC to recover, through its rates charged to customers, $1.02 million of incurred environmental remediation costs. As of June 30, 2008, a

regulatory asset of approximately $956,000 has been recorded to represent the remaining under-recovery portion of the clean-up costs.

Winter Haven Coal Gas Site

The Winter Haven Coal Gas site is located in Winter Haven, Florida. Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing this coal gas site. In May 1996, the Company filed with the FDEP an AS/SVE Pilot Study Work Plan (the "Work Plan") for the Winter Haven Coal Gas site. After discussions with the FDEP, the Company filed a modified Work Plan, which contained a 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 modified Work Plan, which the Company completed during the third quarter of 1999. In February 2001, the Company filed a Remedial Action Plan ("RAP") with the FDEP to address the contamination of the subsurface soil and ground-water in a portion of the site. The FDEP approved the RAP on May 4, 2001. Construction of the AS/SVE system was completed in the fourth quarter of 2002, and the system remains fully operational.

Through June 30, 2008, the Company has incurred approximately $1.8 million of environmental costs associated with this site. At June 30, 2008, the Company had accrued a liability of $751,000 related to this site, offsetting: (a) $64,000 collected through rates in excess of costs incurred and (b) a regulatory asset of approximately $815,000, representing the uncollected portion of the estimated clean-up costs. The Company expects to recover the remaining clean-up costs through rates.

The FDEP has indicated that the Company may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the Winter Haven Coal Gas site. Based on studies performed to date, the Company objects to the FDEP's suggestion that the sediments have been contaminated and will require remediation. The Company's early estimates indicate that some of the corrective measures discussed by the FDEP may cost as much as $1 million. Given the Company's view as to the absence of ecological effects, the Company believes that cost expenditures of this magnitude are unwarranted and plans to oppose any requirement that it undertake corrective measures in the offshore sediments. Chesapeake anticipates that it will be several years before this issue is resolved. At this time, the Company has not recorded a liability for sediment remediation. The outcome of this matter cannot be predicted at this time.

Other

The Company is in discussions with the MDE regarding a manufactured gas plant site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, the Company has not recorded an environmental liability for this location.

Other Commitments and Contingencies

Natural Gas and Propane Supply

The Company's natural gas and propane distribution operations have entered into contractual commitments to purchase gas from various suppliers. The contracts have various expiration dates. In March 2008, the Company renewed its contract with an energy marketing and risk management company to manage a portion of the Company's natural gas transportation and storage capacity. This new contract expires on March 31, 2009.

Corporate Guarantees

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary and its Florida natural gas supply management subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of either subsidiary's default. Neither of these subsidiaries has ever defaulted on its obligations to pay its suppliers. The

liabilities for these purchases are recorded in the Consolidated Financial Statements when incurred. The aggregate amount guaranteed at June 30, 2008 was $24.2 million, with the guarantees expiring on various dates in 2008 and the first six months of 2009.

In addition to the corporate guarantees, the Company has issued a letter of credit to its primary insurance company for $775,000, which expires on May 31, 2009. The letter of credit is provided as security to satisfy the deductibles under the Company's various insurance policies. There have been no draws on this letter of credit as of June 30, 2008.

Internal Revenue Service Audit

The Internal Revenue Service ("IRS") is in the process of auditing our consolidated federal tax return for the year ended December 31, 2005. On July 5, 2008, the Company received a notice of proposed adjustments from the IRS related to the 2005 tax year as a result of this audit. The Company increased its tax accrual by $50,000 in the second quarter of 2008 for uncertain tax positions as defined by FASB Interpretation No. 48, "Uncertainty in Income Taxes ("FIN 48")," related to this notice. The Company is continuing its discussions with the IRS concerning the proposed adjustments and believes that the final resolution of these adjustments will not have a material adverse effect on the financial condition or results of operations of the Company.

Application of SFAS No. 71

Certain assets and liabilities of the Company are accounted for in accordance with SFAS No. 71 — "Accounting for the Effects of Certain Types of Regulation." SFAS No. 71 provides guidance for public utilities and other regulated operations where the rates (prices) charged to customers are subject to regulatory review and approval. Regulators sometimes include allowable costs in a period other than the period in which the costs would be charged to expense by an unregulated enterprise. That procedure can create assets, reduce assets, or create liabilities for the regulated enterprise. For financial reporting, an incurred cost for which a regulator permits recovery in a future period is accounted for like an incurred cost that is reimbursable under a cost-reimbursement type contract. The Company believes that all regulatory assets as of June 30, 2008 are probable of recovery through rates. If the Company were required to terminate the application of SFAS No. 71 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.

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, results of operations or cash flows of the Company.

5. Recent Authoritative Pronouncements on Financial Reporting and Accounting

Recent accounting pronouncements:

In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 (revised 2007) "Business Combinations" ("SFAS 141(R)"). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition-related costs be expensed as incurred. SFAS 141(R) is effective for fiscal years

beginning after December 15, 2008. The Company does not expect the adoption of SFAS 141(R) to have a material impact on its current consolidated financial position and results of operations. However, depending upon the size, nature and complexity of future acquisition transactions, the adoption of SFAS 141(R) could materially affect the Company's consolidated financial statements.

In December 2007, the FASB issued FASB Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements," an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008. No other entity has a minority interest in any of the Company's subsidiaries; therefore, the Company does not expect the adoption of SFAS 160 to have an impact on its current consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS 161"). This new standard requires enhanced disclosures for derivative instruments, including those used in hedging activities. It is effective for fiscal years and interim periods beginning after November 15, 2008, and will be applicable to the Company in the first quarter of fiscal 2009. The Company is assessing the potential impact that the adoption of SFAS 161 may have on its financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets." This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with generally accepted accounting principles in the United States for non-governmental entities. SFAS No. 162 is effective 60 days following approval by the U.S. Securities and Exchange Commission of the Public Company Accounting Oversight Board's amendments to AU Section 411, "The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles." We do not expect SFAS No. 162 to have a material impact on the preparation of our consolidated financial statements.

In May 2008, the FASB issued FASB Staff Position ("FSP") APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)." FSP APB 14-1 clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants." In addition, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is assessing the potential impact that the adoption of FSP APB 14-1 may have on its financial statements.

In June 2008, the FASB issued FASB Staff Position (FSP) EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." This FSP clarifies that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. This FSP is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In June 2008, the FASB ratified EITF Issue No. 07-5, "Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. It also clarifies the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

In June 2008, the FASB ratified EITF Issue No. 08-3, "Accounting for Lessees for Maintenance Deposits Under Lease Arrangements" (EITF 08-3). EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the potential impact the new pronouncement will have on its consolidated financial statements.

During the first six months of 2008, the Company adopted the following accounting standards:

Effective January 1, 2008, Chesapeake adopted FSP No. FIN 39-1, "Amendment of FASB Interpretation No. 39" ("FSP FIN 39-1"). FSP FIN 39-1 modifies FIN No. 39, "Offsetting of Amounts Related to Certain Contracts," and permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. Based on the derivative contracts entered into to date, the adoption of this FSP did not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies' measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS No. 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value and does not expand the use of fair value in any new circumstances. In February 2008, the FASB issued FASB Staff Position 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP 157-1") and FSP 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). FSP 157-1 amends SFAS No. 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of SFAS No. 157 until fiscal years beginning after November 15, 2009 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. SFAS No. 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007 and was adopted by the Company, as it applies to its financial instruments, effective January 1, 2008. The adoption of SFAS No. 157 did not have any financial impact on the Company's consolidated financial

statements. The disclosures required by SFAS 157 are discussed in Note 11 – Fair Value of Financial Instruments of the unaudited Condensed Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115," which permits entities to elect to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. This election is irrevocable. SFAS No. 159 was effective in the first quarter of fiscal 2008. The Company has not elected to apply the fair value option to any of its financial instruments.

6. Segment Information

Chesapeake uses the management approach to identify operating segments. The Company 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 the allocation of resources and to assess performance. The following table presents information about the Company's reportable segments. The table excludes financial data related to our distributed energy company, which was reclassified to discontinued operations for each period presented. The impact of discontinued operations is discussed within Note 12 "Discontinued Operations" of the unaudited Condensed Consolidated Financial Statements.

	Three Months Ended		Six Months Ended	
For the Periods Ended June 30,	**2008**	**2007**	**2008**	**2007**
Operating Revenues, Unaffiliated Customers				
Natural gas	**$53,773,960**	$39,287,667	**$122,596,489**	$104,719,271
Propane	**11,488,807**	9,494,170	**39,296,608**	34,416,570
Advanced information services	**3,794,192**	3,720,083	**7,437,362**	6,892,971
Other	-	-	-	-
Total operating revenues, unaffiliated customers	**$69,056,959**	$52,501,920	**$169,330,459**	$146,028,812
Intersegment Revenues [1]				
Natural gas	**$104,519**	$78,087	**$210,372**	$156,150
Propane	**-**	-	**1,349**	406
Advanced information services	**28,083**	95,991	**36,051**	228,226
Other	**163,073**	154,623	**326,148**	309,246
Total intersegment revenues	**$295,675**	$328,701	**$573,920**	$694,028
Operating Income (Loss)				
Natural gas	**$4,736,363**	$3,992,282	**$15,205,387**	$13,608,264
Propane	**(624,699)**	(545,898)	**2,819,436**	4,327,658
Advanced information services	**137,077**	178,708	**174,941**	227,528
Other and eliminations	**80,698**	72,973	**170,390**	148,188
Total operating income	**$4,329,439**	$3,698,065	**$18,370,154**	$18,311,638
Other income	**63,507**	234,194	**81,097**	290,675
Interest Charges	**1,388,735**	1,594,701	**2,982,106**	3,193,951
Income Taxes	**1,185,287**	849,877	**6,075,879**	5,909,199
Net income from continuing operations	**$1,818,924**	$1,487,681	**$9,393,266**	$9,499,163

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

	June 30, 2008	December 31, 2007
Identifiable Assets		
Natural gas	**$276,404,244**	$273,500,890
Propane	**108,722,729**	94,966,212
Advanced information services	**2,820,065**	2,507,910
Other	**12,915,716**	10,533,511
Total identifiable assets	**$400,862,754**	$381,508,523

The Company's operations are primarily domestic. The advanced information services segment has infrequent transactions with foreign companies, located primarily in Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

7. Employee Benefit Plans

Net periodic benefit costs for the defined benefit pension plan, the executive excess benefit plan and other post-retirement benefits are shown below:

	Defined Benefit Pension Plan		Executive Excess Defined Benefit Pension Plan		Other Post-Retirement Benefits	
For the Three Months Ended June 30,	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Service Cost	$ -	$ -	$ -	$ -	$ 896	$ 2,529
Interest Cost	148,431	155,514	31,382	30,841	27,565	23,233
Expected return on plan assets	(156,475)	(174,100)	-	-	-	-
Amortization of prior service cost	(1,175)	(1,175)	-	-	-	-
Amortization of net loss	-	-	11,611	12,933	46,215	41,640
Net periodic (benefit) cost	$ (9,219)	$ (19,761)	$ 42,993	$ 43,774	$ 74,676	$ 67,402

	Defined Benefit Pension Plan		Executive Excess Defined Benefit Pension Plan		Other Post-Retirement Benefits	
For the Six Months Ended June 30,	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Service Cost	$ -	$ -	$ -	$ -	$ 1,792	$5,057
Interest Cost	296,862	311,029	62,763	61,681	55,129	46,467
Expected return on plan assets	(312,950)	(348,199)	-	-	-	-
Amortization of prior service cost	(2,350)	(2,350)	-	-	-	-
Amortization of net loss	-	-	23,222	25,867	92,430	83,280
Net periodic (benefit) cost	$ (18,438)	$ (39,520)	$ 85,985	$ 87,548	$ 149,351	$ 134,804

As disclosed in the December 31, 2007 financial statements, no contributions are expected to be required in 2008 for the defined benefit pension plan. The cost of the executive excess retirement benefit plan and the other post-retirement benefit plans are unfunded and are expected to be paid out of the general funds of the Company. Cash benefits paid under the executive excess retirement benefit plan for the three months and six months ended June 30, 2008 were $22,300 and $44,600, respectively; for the year 2008, such benefits paid are expected to be $89,200. The Company incurred a credit of $8,500 for post-retirement benefits for medical claims for the three months ended June 30, 2008 compared to cash benefits paid of $17,000 for the first six months of 2008; for the year 2008, the Company has estimated that such benefits to be paid are $196,000. The credit incurred in the second quarter of 2008 is the result of being reimbursed for claims that were previously paid in 2007.

8. Investments

The investment balance at June 30, 2008 represents a Rabbi Trust associated with the Company's Supplemental Executive Retirement Savings Plan. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company classifies these investments as trading securities. As a result, the Company is required to report the securities at their fair value, with any unrealized gains and losses included in other income. The Company also has an associated liability that is recorded and adjusted each month for the gains and losses incurred by the Trust. At June 30, 2008, total investments had a fair value of $1.9 million.

9. Share-Based Compensation

The Company accounts for its share-based compensation arrangements under SFAS No. 123 (revised 2004), "Share Based Payments" ("SFAS 123R"), which requires companies to record compensation costs for all share-based awards over the respective service period for which employee services are received in exchange for an award of equity or equity-based compensation. The compensation cost is based on the fair value of the grant on the date it was awarded. The Company currently has two share-based compensation plans, the Directors Stock Compensation Plan ("DSCP") and the Performance Incentive Plan ("PIP"), that require accounting under SFAS 123R.

The table below presents the amounts included in net income related to share-based compensation expense for the restricted stock awards issued under the DSCP and the PIP for the three and six months ended June 30, 2008 and 2007.

For the periods ended June 30,	Three Months Ended 2008	Three Months Ended 2007	Six Months Ended 2008	Six Months Ended 2007
Directors Stock Compensation Plan	**$ 45,893**	$ 45,230	**$ 91,786**	$ 89,134
Performance Incentive Plan	**198,984**	214,373	**384,342**	416,308
Total compensation expense	**244,877**	259,603	**476,128**	505,442
Less: tax benefit	**97,507**	101,245	**189,588**	197,122
SFAS 123R amounts included in net income	**$ 147,370**	$ 158,358	**$ 286,540**	$ 308,320

10. Stockholders' Equity

The changes in common stock shares issued and outstanding are shown below:

	For the Six Months Ended June 30, 2008	For the Twelve Months Ended December 31, 2007
Common Stock shares issued and outstanding [1]		
Shares issued — beginning of period balance	**6,777,410**	6,688,084
Dividend Reinvestment Plan [2]	**7,275**	35,333
Retirement Savings Plan	**2,206**	29,563
Conversion of debentures	**3,231**	8,106
Employee award plan	**250**	350
Stock based compensation [3]	**24,333**	15,974
Shares issued — end of period balance [4]	**6,814,705**	6,777,410
Treasury shares — beginning of period balance	**-**	-
Purchases	**(1,103)**	-
Deferred Compensation Plan	**1,103**	-
Other issuances	**-**	-
Treasury Shares — end of period balance	-	-
Total Shares Outstanding	**6,814,705**	6,777,410

[1] 12,000,000 shares are authorized at a par value of $0.4867 per share.

[2] Includes shares purchased with reinvested dividends and optional cash payments.

[3] Includes shares issued for Director's compensation and Performance Incentive Plan.

[4] Includes 60,870 and 57,309 shares at June 30, 2008 and December 31, 2007, respectively, held in a Rabbi Trust established by the Company relating to the Deferred Compensation Plan.

11. Fair Value of Financial Instruments

The Company adopted SFAS No. 157 effective January 1, 2008 for financial assets and liabilities measured on a recurring basis. SFAS No. 157 applies to all financial assets and financial liabilities that are being measured and reported on a fair value basis. There was no impact from adoption of SFAS No. 157 to the unaudited condensed consolidated balance sheets and statements of income. The primary effect of SFAS No. 157 on the Company was to expand the required disclosures pertaining to the methods used to determine fair values.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2: Quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e. supported by little or no market activity).

The following table summarizes the Company's financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements by level within the fair value hierarchy used at June 30, 2008:

		Fair Value Measurements Using:		
(in thousands)	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments	$1,911	$1,911	$ -	$ -
Mark-to-market energy assets	7,015	-	7,015	-
Liabilities:				
Mark-to-market energy liabilities	6,478	-	6,478	-

The following valuation techniques were used to measure fair value assets in the table above on a recurring basis as of June 30, 2008:

Level 1 Fair Value Measurements:
Investments - The fair values of these available-for-sale securities are recorded at fair value based on unadjusted quoted prices in active markets for identical securities.

Level 2 Fair Value Measurements:
Mark-to-market energy assets and liabilities - These forward contracts are valued using broker or dealer quotations, or market transactions in either the listed or OTC markets.

The Company's adoption of SFAS No. 157 applies only to its financial instruments. The adoption did not apply to those non-financial assets and non-financial liabilities delayed under FSP No. 157-2, which will be implemented for the fiscal years beginning after November 15, 2009.

12. Discontinued Operations

During the quarter ended September 30, 2007, the Company decided to close its distributed energy services subsidiary, OnSight Energy, LLC ("OnSight"), as it had experienced operating losses since its inception in 2004. As a result of these actions, the financial data related to OnSight is presented as discontinued operations for all periods presented. The discontinued operations did not have any impact on the Company's condensed consolidated financial statements during the three and six months ended June 30, 2008 compared to net losses of $6,000 and $26,000 for the three and six months ended June 30, 2007.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is designed to provide a reader of the financial statements with a narrative report on the Company's financial condition, results of operations and liquidity. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2007, including the audited consolidated financial statements and notes contained in the Form 10-K.

Safe Harbor for Forward-Looking Statements

Chesapeake Utilities Corporation has made statements in this Form 10-Q that are considered to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are not matters of historical fact and are typically identified by words such as, but not limited to, "believes," "expects," "intends," "plans," and similar expressions, or future or conditional verbs such as "may," "will," "should," "would," and "could." These statements relate to matters such as customer growth, changes in revenues or gross margins, capital expenditures, environmental remediation costs, regulatory trends and decisions, market risks associated with our propane operations, 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. The factors that could cause actual results to differ materially from the Company's expectations include, but are not limited to:

- the temperature sensitivity of the natural gas and propane businesses;
- the effects of spot, forward, futures market prices, and the Company's use of derivative instruments on the Company's distribution, wholesale marketing and energy trading businesses;
- the amount and availability of natural gas and propane supplies;
- the access to interstate pipelines' transportation and storage capacity and the construction of new facilities to support future growth;
- the effects of natural gas and propane commodity price changes on the operating costs and competitive positions of our natural gas and propane distribution operations;
- third-party competition for the Company's unregulated and regulated businesses;
- changes in federal, state or local regulation and tax requirements, including deregulation;
- changes in technology affecting the Company's advanced information services segment;
- changes in credit risk and credit requirements affecting the Company's energy marketing subsidiaries;
- the effects of accounting changes;
- changes in benefit plan assumptions;
- the cost of compliance with environmental regulations or the remediation of environmental damage;
- the effects of general economic conditions, including interest rates, on the Company and its customers;
- the ability of the Company's new and planned facilities and acquisitions to generate expected revenues;
- the ability of the Company to construct facilities at or below estimated costs;
- the Company's ability to obtain the rate relief and cost recovery requested from regulators and the timing of the requested regulatory actions;
- the Company's ability to obtain necessary approvals and permits from regulatory agencies on a timely basis;
- the impact of inflation on the results of operations, cash flows, financial position and on the Company's planned capital expenditures;
- inability to access financial markets to a degree that may impair future growth; and

- operating and litigation risks that may not be covered by insurance.

Overview

Chesapeake is a diversified utility company engaged, directly or through subsidiaries, in natural gas distribution, transmission and marketing, propane distribution and wholesale marketing, advanced information services and other related businesses. For additional information regarding segments, refer to Note 6, Segment Information, of the Notes to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

The Company's strategy is focused on growing the earnings produced from a stable utility foundation and investing in related businesses and services that provide opportunities for returns greater than traditional utility returns. The key elements of this strategy include:

- executing a capital investment program in pursuit of organic growth opportunities that generate returns equal to or greater than our cost of capital;
- expanding the natural gas distribution and transmission business through expansion into new geographic areas in our current service territories;
- expanding the propane distribution business in existing and new markets by leveraging our community gas system services and our bulk delivery capabilities;
- utilizing the Company's expertise across our various businesses to improve overall performance;
- enhancing marketing channels to attract new customers;
- providing reliable and responsive customer service to retain existing customers;
- maintaining a capital structure that enables the Company to access capital as needed; and
- maintaining a consistent and competitive dividend for shareholders.

Due to the seasonality of the Company's business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the Company's first and fourth quarters, when consumption of natural gas and propane is highest due to colder temperatures.

Results of Operations for the Quarter Ended June 30, 2008

The following discussions on operating income and segment results for the three months ended June 30, 2008 and 2007 include use of the term "gross margin." Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes the purchased gas cost for natural gas and propane and the cost of labor spent on direct revenue-producing activities. Gross margin should not be considered an alternative to operating income or net income, which are determined in accordance with GAAP. Chesapeake believes that gross margin, although a non-GAAP measure, is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates the profitability achieved by the Company under its allowed rates for regulated operations and under its competitive pricing structure for non-regulated segments. Chesapeake's management uses gross margin in measuring performance of its business units and has historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

Consolidated Overview

The Company's net income for the quarter ended June 30, 2008 increased $337,000, or 23 percent, compared to the same period in 2007. The Company earned a net income of approximately $1.8 million, or $0.27 per share (diluted) during the quarter compared to a net income of approximately $1.5 million, or $0.22 per share (diluted) during the same quarter in 2007.

For the Three Months Ended June 30,	2008	2007	Change
Net Income (Loss)			
Continuing operations	**$1,818,924**	$1,487,681	$331,243
Discontinued operations	-	(5,891)	5,891
Total Net Income	**$1,818,924**	$1,481,790	$337,134
Diluted Earnings Per Share			
Continuing operations	**$0.27**	$0.22	$0.05
Discontinued operations	-	-	-
Total Diluted Earnings Per Share	**$0.27**	$0.22	$0.05

When compared to the second quarter of 2007, the Company was able to increase net income for the second quarter of 2008 by $337,000, despite taking a charge of $1.2 million to other operating expense in 2008 for costs relating to an unconsummated acquisition. The Company initiated discussions in the third quarter of 2007 with a potential acquisition target. These discussions continued through the first part of the second quarter of 2008, at which time, we determined that we would not be able to complete the acquisition. In the course of these negotiations, the Company incurred certain accounting, legal and other professional fees and expenses, which were expensed in the second quarter of 2008 in accordance with SFAS 141 "Business Combinations." Absent the charge for the unconsummated acquisition, the Company estimates that net income would have increased by $1.1 million in the second quarter to $2.6 million, or $0.37 per share (diluted), compared to the same period in 2007.

The period-over-period increase in net income reflects higher operating income from the Company's natural gas segment and lower interest expense, partially offset by a decrease in other income.

For the Three Months Ended June 30,	2008	2007	Change
Operating Income			
Natural Gas	**$4,736,363**	$3,992,282	$744,081
Propane	**(624,699)**	(545,898)	(78,801)
Advanced Information Services	**137,077**	178,708	(41,631)
Other & Eliminations	**80,698**	72,973	7,725
Operating Income	**4,329,439**	3,698,065	631,374
Other Income	**63,507**	234,194	(170,687)
Interest Charges	**1,388,735**	1,594,701	(205,966)
Income Taxes	**1,185,287**	849,877	335,410
Net Income from Continuing Operations	**1,818,924**	$1,487,681	$331,243

The period-over-period increase in operating income resulted primarily from the following:

- Growth in the number of customers and improved supply management techniques produced a period-over-period increase of 96 percent in gross margin for the Company's natural gas marketing operation.
- Rate increases, lower depreciation allowances and lower asset removal cost allowances, approved in rate proceedings for the Company's Delmarva natural gas distribution and natural gas transmission operations, contributed $653,000 to operating income for the natural gas segment in the second quarter of 2008.

- The Company's natural gas transmission and Delmarva natural gas distribution operations experienced a combined increase in interruptible service revenue of $392,000, net of required margin-sharing, in the second quarter of 2008 compared to the same period in 2007.
- New transportation capacity contracts implemented for the natural gas transmission operation in November 2007 provided $299,000 of additional gross margin in the second quarter of 2008.
- Despite a slowdown in the new housing market as a result of the unfavorable economic conditions in that market, the Delmarva natural gas distribution operations continued to experience strong period-over-period customer growth with a five-percent increase in residential customers over the second quarter of 2007. In addition, the Delmarva natural gas distribution operations have been able to offset partially this slowdown with growth in commercial customers. Overall, these growth factors contributed $290,000 to the increase in gross margins for the Delmarva natural gas distribution operations in the second quarter of 2008.
- The average gross margin per retail gallon sold to customers increased $0.10 in the second quarter of 2008 for the Delmarva propane distribution operations, which contributed $307,000 to gross margins. This increase was partially offset by a decrease to gross margin of $222,000 as the Delmarva propane distribution operations experienced lower volumes delivered to customers during the second quarter of 2008 compared to the same period in 2007.
- Volatile wholesale propane prices in the second quarter of 2008 contributed to the gross margin increase of $207,000 for the Company's propane wholesale and marketing operation.

Natural Gas

The natural gas segment earned operating income of $4.7 million for the second quarter in 2008 compared to $4.0 million for the corresponding quarter in 2007, an increase of $744,000, or 19 percent.

For the Three Months Ended June 30,	2008	2007	Change
Revenue	**$53,878,479**	$39,365,754	$14,512,725
Cost of sales	**38,945,802**	26,130,962	12,814,840
Gross margin	**14,932,677**	13,234,792	1,697,885
Operations & maintenance	**6,524,529**	6,440,171	84,358
Terminated acquisition costs	**890,053**	-	890,053
Depreciation & amortization	**1,654,980**	1,834,712	(179,732)
Other taxes	**1,126,752**	967,627	159,125
Other operating expenses	**10,196,314**	9,242,510	953,804
Total Operating Income	**$4,736,363**	$3,992,282	$744,081

Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**481**	527	(46)
10-year average (normal)	**490**	496	(6)
Estimated gross margin per HDD	**$1,937**	$2,283	($346)
Per residential customer added:			
Estimated gross margin	**$372**	$372	$0
Estimated other operating expenses	**$106**	$106	$0

Residential Customer Information			
Average number of customers:			
Delmarva	**45,540**	43,331	2,209
Florida	**13,463**	13,361	102
Total	**59,003**	56,692	2,311

Gross margin for the Company's natural gas segment increased by $1.7 million, or 13 percent, and other operating expenses increased by $954,000, or 10 percent, for the second quarter in 2008 compared to the

same period in 2007. The gross margin increases of $683,000 for the natural gas transmission operation, $556,000 for the natural gas distribution operations and $459,000 for the natural gas marketing operation are further explained below.

Natural Gas Transmission

The natural gas transmission operation achieved gross margin growth of $683,000, or 13 percent, in the second quarter of 2008 compared to the same period in 2007. The significant items contributing to the increase in gross margin include the following:

- New transportation capacity contracts implemented in November 2007 contributed $299,000 to gross margin in the second quarter of 2008 and are expected to generate a total annual increase in gross margin of $1.2 million above 2007 gross margin.
- Interruptible sales revenue, net of required margin-sharing, increased $324,000 in the second quarter of 2008 compared to the same period in 2007. Interruptible customers include large industrial customers whose service can be temporarily interrupted when necessary to meet the needs of firm customers. For the remainder of 2008, however, the Company expects its natural gas transmission operation to report a decrease of $192,000 in interruptible services revenue, compared to the corresponding period in 2007, because the operation reached its margin-sharing threshold in the second quarter of 2008; in 2007, it reached the threshold in the fourth quarter. Currently effective settlements in rate proceedings require the Company, upon reaching the margin-sharing threshold, to share 90% of its interruptible natural gas transmission revenues with its customers.
- The implementation of rate case settlement rates, effective September 1, 2007, contributed an additional $42,000 to gross margins in the second quarter of 2008 compared to the same period in 2007. The period-over-period increase in gross margin would have been larger, but for temporary implementation in May 2007 of rates, which were subject to refund, when the settled rates became effective on September 1, 2007. A further discussion of the FERC rate proceeding is provided within the "Rates and Regulatory" section of Note 4, "Commitments and Contingencies," to these unaudited Condensed Consolidated Financial Statements.
- The remaining $18,000 increase in gross margin in the second quarter of 2008 is attributable to other various minor factors.

An increase of $372,000 in other operating expenses partially offset the increased gross margin. The factors contributing to the increase in other operating expenses are as follow:

- Corporate costs allocated to the natural gas transmission operation increased $411,000 as a result of: (1) $341,000 for the allocation of a portion of the terminated acquisition costs previously discussed, and (2) the Company updating its annual corporate cost allocations.
- Incentive compensation costs increased by $61,000 as a result of the improved operating results in 2008 compared to 2007.
- Rent and utility expenses increased $44,000 and $18,000, respectively, as Eastern Shore began incurring additional rental expense in January 2008 for a new office building.
- The increased level of capital investment caused increased property taxes of $75,000.
- Partially offsetting the previously mentioned increases was a decrease of $118,000 in depreciation expense and a decrease of $61,000 in regulatory expense. Both of these lower expenses are a result of the 2007 rate case. As part of the rate case settlement that became effective September 1, 2007, the FERC approved a reduction in depreciation rates for Eastern Shore. Also, the Company incurred regulatory expenses in the second quarter of 2007 associated with the FERC rate proceeding.
- Other operating expenses relating to various items decreased collectively by approximately $58,000.

Natural Gas Distribution

Gross margin for the Company's natural gas distribution operations increased by $556,000, or seven percent, for the second quarter in 2008 compared to the same period in 2007. The gross margin increases of $481,000 for the Delmarva natural gas distribution operations and $75,000 for the Florida natural gas distribution operations are further explained below.

The Delmarva distribution operations experienced an increase of $481,000, or 10 percent, in gross margin. The significant items contributing to the increase in gross margin include the following:

- Continued residential and commercial customer growth contributed to increases in gross margin. Although the Company continues to see a slowdown in the new housing market as a result of the unfavorable market conditions in the housing market, the average number of residential customers on the Delmarva Peninsula increased by 2,209, or five percent, for the second quarter of 2008 compared to the same period in 2007, and the Company estimates that these additional residential customers contributed approximately $180,000 to gross margin during the second quarter of 2008. The Company further estimates that a two percent growth in the number of its commercial customers during the second quarter of 2008 compared to the same period in 2007 contributed approximately $93,000 to gross margin during the second quarter of 2008.
- The Company's estimate for unbilled revenue for the second quarter of 2008 contributed $263,000 more to gross margin than normal, partially due to the warmer weather experienced during the first quarter of 2008.
- Interruptible sales revenue, net of required margin-sharing, increased $68,000 in the second quarter of 2008 compared to the same period in 2007, as customers took advantage of lower natural gas prices in comparison to prices for alternative fuels.
- Partially offsetting these increases to gross margin was the negative impact of lower consumption per customer that reflects customer conservation efforts in light of higher energy costs and more energy-efficient housing. The Company estimates that lower consumption reduced margins by $56,000 in the second quarter of 2008.
- The remaining $61,000 net increase in gross margin can be attributed to various factors, including the implementation of temporary rates by the Delaware division and lower industrial volumes.

Gross margin for the Florida distribution operation increased by $75,000, or three percent, in the second quarter of 2008 compared to the same period in 2007. This increase in gross margin is primarily due to higher volumes sold to non-residential customers and higher revenues from third-party natural gas marketers.

Other operating expense for the natural gas distribution operations increased by $582,000 in the second quarter of 2008 compared to the same period in 2007. Among the key components of the increase were the following:

- Corporate costs allocated to the natural gas distribution operations increased $678,000 primarily due to $533,000 for the allocation of a portion of the terminated acquisition costs previously discussed.
- Incentive compensation increased $121,000 in the second quarter of 2008 as the Delmarva operations experienced improved earnings compared to the prior year.
- Property taxes increased by $57,000 as a result of the Company's continued capital investments.
- The allowance for uncollectible accounts increased $86,000 in 2008 compared to 2007 as a result of the adjustments to the reserve balances for historical collection practices.
- Depreciation expense and asset removal costs decreased $58,000 and $357,000, respectively, in the second quarter of 2008 compared to the same period in 2007, primarily as a result of the Delmarva operations's rate proceedings. These rate proceedings provided for lower depreciation allowances and lower asset removal cost allowances, which resulted in reductions of $95,000 and $409,000 in depreciation expense and asset removal costs during the second quarter of 2008. A portion of this

reduction, or $77,000, represents adjustments to the amount reserved for refund as of March 31, 2008 based on the depreciation and asset removal cost allowances contained in the negotiated settlement agreements.

- In addition, other operating expenses relating to various minor items increased by approximately $55,000.

Natural Gas Marketing

Gross margin for the natural gas marketing operation increased by $459,000, or 96 percent, for the second quarter of 2008 compared to the same period in 2007. The increase in gross margin was primarily the result of growth in the number of customers to which it provides supply management services and improved gas supply management techniques. Other operating expenses decreased slightly by $2,000 for the marketing operation; this decrease is attributable to lower payroll-related costs and benefits, which was partially offset by higher incentive compensation and higher corporate costs as $16,000 was allocated to the operation for a portion the terminated acquisition costs.

Propane

The propane segment experienced a decrease of $79,000, or 14 percent, in operating income for the second quarter of 2008 compared to the same period in 2007. Gross margin increased by $390,000, which was more than offset by an increase in other operating expenses of $469,000. Absent the terminated acquisition costs of $273,000 allocated to the propane segment, it would have reduced its operating loss by $194,000, or 35 percent, for the second quarter of 2008 compared to the same period in 2007.

For the Three Months Ended June 30,	2008	2007	Change
Revenue	**$11,488,807**	$9,494,170	$1,994,637
Cost of sales	**7,534,539**	5,930,398	1,604,141
Gross margin	**3,954,268**	3,563,772	390,496
Operations & maintenance	**3,624,049**	3,463,047	161,002
Terminated acquisition costs	**272,718**	-	272,718
Depreciation & amortization	**503,929**	458,788	45,141
Other taxes	**178,271**	187,835	(9,564)
Other operating expenses	**4,578,967**	4,109,670	469,297
Total Operating Loss	**($624,699)**	($545,898)	($78,801)

Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**481**	527	(46)
10-year average (normal)	**490**	496	(6)
Estimated gross margin per HDD	**$2,465**	$1,974	$491

The period-over-period decrease in operating income was due to higher other operating expenses, which resulted from the allocation of a portion of the terminated acquisition costs in the second quarter of 2008. Absent these costs, the propane segment would have earned a period-over-period increase in operating income of $194,000. The gross margin increases of $182,000 for the Delmarva propane distribution operations, $2,000 for the Florida propane distribution operations and $207,000 for the propane wholesale and marketing operation, are further explained below.

Delmarva Propane Distribution

The Delmarva propane distribution operation's increase in gross margin of $182,000 resulted from the following:

- Gross margin increased by $307,000 in the second quarter of 2008, compared to the same period in 2007, because of a $0.10 increase in the average gross margin per retail gallon. This increase occurs when market prices rise at a greater rate than the Company's inventory price per gallon. This trend reverses, as it did in the first quarter of 2008, when market prices of propane decrease and move closer to the Company's average inventory price per gallon.
- Temperatures on the Delmarva Peninsula were nine percent warmer in the second quarter of 2008 compared to the same period in 2007, which contributed to a decrease of 156,000 gallons, or five percent, sold during this period in 2008 compared to the same period in 2007. The Company estimates that the warmer weather and decreased volumes sold had a negative impact of approximately $113,000 for the Delmarva propane distribution operation compared to the second quarter of 2007.
- Non-weather-related volumes sold in the second quarter of 2008 decreased by 176,000 gallons, or five percent. This decrease in gallons sold reduced gross margin by approximately $109,000 for the Delmarva propane distribution operation compared to the second quarter of 2007. Contributing to this decrease in gallons sold was customer conservation, a reduced number of customers and the timing of propane deliveries.
- The remaining $97,000 increase in gross margin can be attributed to various other factors, such as higher tank and meter rental fees.

Total other operating expenses increased by $358,000 for the Delmarva propane operations in the second quarter of 2008, compared to the same period in 2007. The significant items contributing to this increase are explained below:

- Corporate costs allocable to the propane distribution operations increased $338,000 as a result of: (1) $227,000 for the allocation of a portion of the terminated acquisition costs previously discussed, and (2) the Company updating its annual corporate cost allocations.
- Vehicle fuel increased $53,000 as a result of rising gasoline and diesel fuel costs.
- The allowance for uncollectable accounts increased $31,000 due to increased revenues resulting from the higher cost of propane.
- Customer charges increased by $26,000 in the second quarter 2008 compared to the same period 2007 as a result of added Community Gas Systems ("CGS") customers. This expenditure will continue to increase as more CGS customers are added.
- Depreciation and amortization expense increased by $19,000 as a result of the Company's increase in capital investments over the prior year.
- The operation experienced lower expenses of $121,000 in the second quarter of 2008 compared to the same period in 2007 for propane tank recertifications and maintenance. The Company incurred these costs in 2007 to maintain compliance with U.S. Department of Transportation ("DOT") standards, which requires propane tanks or cylinders to be recertified twelve years from their date of manufacture and every five years after that.
- In addition, other operating expenses relating to various items increased collectively by approximately $12,000.

Florida Propane Distribution

The Florida propane distribution operation experienced a slight increase in gross margin of $2,000, or one percent, in the second quarter of 2008 compared to the same period in 2007. The higher gross margin is attributable to an increase of $15,000 based upon a higher average gross margin per retail gallon, which was partially offset by a decrease of $13,000 in service sales. Other operating expenses in the second quarter of 2008, compared to the same period in 2007, increased by $65,000, primarily due to increases in depreciation expense, allowance for uncollectible accounts and increased corporate costs as $20,000 was allocated to the operations for a portion of the terminated acquisition costs.

Propane Wholesale and Marketing

Gross margin for the Company's propane wholesale marketing operation increased by $207,000, or 35 percent, in the second quarter of 2008 compared to the same period in 2007. This increase reflects the larger number of market opportunities that arose in the second quarter of 2008 due to price volatility in the propane wholesale market, which exceeded the level of price fluctuations experienced in 2007. The increase in gross margin was partially offset by higher other operating expenses of $46,000, due primarily to higher payroll costs, including incentive compensation, and increased corporate costs as $26,000 was allocated to the operation for a portion of the terminated acquisition costs.

Advanced Information Services

The advanced information services segment experienced gross margin growth of approximately $114,000, or seven percent, and contributed operating income of $137,000 for the second quarter of 2008, a decrease of $42,000 compared to the same period in 2007. Absent the terminated acquisition costs of $64,000 allocated to the advanced information segment, it would have increased its operating income by $22,000, or 13 percent, for the second quarter of 2008 compared to the same period in 2007.

For the Three Months Ended June 30,	2008	2007	Change
Revenue	**$3,822,274**	$3,816,074	$6,200
Cost of sales	**2,059,375**	2,166,963	(107,588)
Gross margin	**1,762,899**	1,649,111	113,788
Operations & maintenance	**1,363,082**	1,273,239	89,843
Terminated acquisition costs	**64,461**	-	64,461
Depreciation & amortization	**38,583**	35,248	3,335
Other taxes	**159,696**	161,916	(2,220)
Other operating expenses	**1,625,822**	1,470,403	155,419
Total Operating Income	**$137,077**	$178,708	($41,631)

The period-over-period increase in gross margin was attributable to lower cost of sales. Cost of sales decreased by $108,000 as the number of billable employees was reduced. Also, lower reimbursable expenses contributed to the reduction in cost of sales as employees performed less travel during the period.

Other operating expenses increased by $155,000 in the second quarter of 2008, compared to the same period in 2007. This increase in operating expenses is attributable to payroll costs, payroll taxes, and increased corporate costs as $64,000 was allocated to the segment for a portion of the terminated acquisition costs. Payroll costs increased as a result of the increase in non-billable staffing levels added to support future growth.

Other Business Operations and Eliminations

Other operations, consisting primarily of subsidiaries that own real estate leased to other Company subsidiaries, generated an operating income of approximately $81,000 for the second quarter of 2008 compared to an operating income of approximately $73,000 for the same period in 2007.

For the Three Months Ended June 30,	2008	2007	Change
Revenue	**$163,074**	$154,623	$8,451
Cost of sales	**-**	-	-
Gross margin	**163,074**	154,623	8,451
Operations & maintenance	**29,784**	28,004	1,780
Terminated acquisition costs	**12,396**	-	12,396
Depreciation & amortization	**28,622**	39,545	(10,923)
Other taxes	**12,344**	14,871	(2,527)
Other operating expenses	**83,146**	82,420	726
Operating Income - Other	**79,928**	72,203	7,725
Operating Income - Eliminations (1)	**770**	770	-
Total Operating Income	**$80,698**	$72,973	$7,725

(1) Eliminations are entries required to eliminate activities between segments from the consolidated results.

Interest Expense

Total interest expense for the second quarter of 2008 decreased by approximately $206,000, or approximately 13 percent, compared to the same period in 2007. The lower interest expense is a result of the following developments:

- Interest on short-term borrowings increased $44,000 in the second quarter of 2008 compared to the same period in 2007, based upon an increase of $21.2 million in the Company's average short-term borrowing balance. The impact of the higher borrowing was partially offset by a lower weighted average interest rate that was nearly three percentage points lower in 2008 and the amount of interest capitalized during the period. The Company's average short-term borrowing during the second quarter of 2008 was $35.3 million with a weighted average interest rate of 2.51 percent, compared to $14.1 million with a weighted average interest rate of 5.74 percent for the same period in 2007.
- Interest on long-term debt decreased $141,000 in the second quarter of 2008 compared to the same period in 2007 as the Company reduced its average long-term debt balance by $7.8 million. The Company's average long-term debt during the second quarter of 2008 was $69.8 million with a weighted average interest rate of 6.61 percent, compared to $77.6 million with a weighted average interest rate of 6.67 percent for the same period in 2007.
- Interest expense for other items, such as interest on refunds to customers and meter deposits, increased $31,000 in the second quarter of 2008 compared to the corresponding period in 2007.

Income Taxes

Income tax expense for the second quarter of 2008 was $1.2 million compared to $850,000 for the second quarter of 2007. The increase in income tax expense primarily reflects the higher earnings for the period and an increase of $50,000 to our tax accrual for uncertain tax positions as defined by FIN 48," related to our 2005 tax return that is currently under audit by the IRS. The effective tax rate for the second quarter of 2008 is 39.5 percent compared to an effective tax rate of 36.4 percent for the second quarter of 2007.

Results of Operations for the Six Months Ended June 30, 2008

The following discussions on operating income and segment results for the six months ended June 30, 2008 and 2007 include use of the term "gross margin." Gross margin is determined by deducting the cost of sales from operating revenue. Cost of sales includes the purchased gas cost for natural gas and propane and the cost of labor spent on direct revenue-producing activities. Gross margin should not be considered an alternative to operating income or net income, which is determined in accordance with GAAP. Chesapeake believes that gross margin, although a non-GAAP measure, is useful and meaningful to investors as a basis for making investment decisions. It provides investors with information that demonstrates the profitability achieved by the Company under its allowed rates for regulated operations and under its competitive pricing structure for non-regulated segments. Chesapeake's management uses gross margin in measuring

performance of its business units and has historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.

Consolidated Overview

The Company experienced a slight decrease of $80,000 in net income for the six months ended June 30, 2008, compared to the same period in 2007. Earnings per share decreased by $0.03 per share (diluted) in the first six months of 2008 to $1.36 per share (diluted), compared to $1.39 per share (diluted) in 2007, due to an increased number of shares outstanding in 2008.

For the Six Months Ended June 30,	2008	2007	Change
Net Income			
Continuing operations	**$9,393,266**	$9,499,162	($105,896)
Discontinued operations	-	(26,284)	26,284
Total Net Income	**$9,393,266**	$9,472,878	($79,612)
Diluted Earnings (Loss) Per Share			
Continuing operations	**$1.36**	$1.39	($0.03)
Discontinued operations	-	-	-
Total Diluted Earnings Per Share	**$1.36**	$1.39	($0.03)

The period-over-period decreases in net income reflects higher income taxes and lower other income, which were partially offset by a slight increase in operating income and a decrease in interest expense. Operating income increased by $59,000 to $18.4 million for the first six months of 2008 compared to $18.3 million for the same period in 2007, as the gross margin increase of $1.9 million, or four percent, was almost completely offset by an increase in other operating expenses. The increase in gross margin was driven primarily by continued growth, increased interruptible services revenue, and increased rates for the natural gas segment, partially offset by warmer weather on the Delmarva Peninsula and lower non-weather-related sales volumes and margin per gallon for the propane segment. Contributing to the higher operating expenses in 2008 was the $1.2 million of costs associated with the unconsummated acquisition in the second quarter of 2008.

For the Six Months Ended June 30,	2008	2007	Change
Operating Income			
Natural Gas	**$15,205,387**	$13,608,264	$1,597,123
Propane	**2,819,436**	4,327,658	(1,508,222)
Advanced Information Services	**174,941**	227,528	(52,587)
Other & Eliminations	**170,390**	148,187	22,203
Operating Income	**18,370,154**	18,311,637	58,517
Other Income	**81,097**	290,675	(209,578)
Interest Charges	**2,982,106**	3,193,951	(211,845)
Income Taxes	**6,075,879**	5,909,199	166,680
Net Income from Continuing Operations	**$9,393,266**	$9,499,162	($105,896)

The period-over-period increase in operating income resulted primarily from the following:

- Growth in the number of customers, improved supply management techniques and favorable imbalance resolutions with interstate pipelines produced a higher gross margin of $618,000 for the Company's natural gas marketing operation.

- The Company's natural gas transmission and Delmarva natural gas distribution operations experienced a combined increased in interruptible services revenue, net of required margin-sharing, of $610,000 in the first six months of 2008 compared to the same period in 2007.
- New transportation capacity contracts implemented for the natural gas transmission operation in November 2007 provided for $591,000 of additional gross margin in the first six months of 2008.
- Period-over-period residential and commercial customer growth of five percent and two percent, respectively, for the Delmarva natural gas distribution operations in 2008.
- Rate increases, lower depreciation allowances and lower asset removal cost allowances contributed $1.7 million to operating income for the natural gas segment in the first six months of 2008 as a result of rate proceedings for the Company's Delmarva natural gas distribution and natural gas transmission operations.
- Partially offsetting these increases in gross margin was the negative impact that warmer weather on the Delmarva Peninsula had on gross margin for the Delmarva natural gas and propane distribution operations. In addition, gross margin from the propane segment decreased as the Delmarva distribution operations experienced lower non-weather related sales volumes and decreases in the average gross margin per retail gallon.

Natural Gas

The natural gas segment earned operating income of $15.2 million for the first six months in 2008 compared to $13.6 million for the corresponding period in 2007, an increase of $1.6 million, or 12 percent.

For the Six Months Ended June 30,	2008	2007	Change
Revenue	**$122,806,861**	$104,875,421	$17,931,440
Cost of sales	**88,263,342**	72,899,708	15,363,634
Gross margin	**34,543,519**	31,975,713	2,567,806
Operations & maintenance	**12,790,761**	12,703,572	87,189
Terminated acquisition costs	**890,053**	-	890,053
Depreciation & amortization	**3,294,659**	3,630,193	(335,534)
Other taxes	**2,362,659**	2,033,684	328,975
Other operating expenses	**19,338,132**	18,367,449	970,683
Total Operating Income	**$15,205,387**	$13,608,264	$1,597,123

Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**2,703**	2,966	(263)
10-year average (normal)	**2,760**	2,737	23
Estimated gross margin per HDD	**$1,937**	$2,283	($346)
Per residential customer added:			
Estimated gross margin	**$372**	$372	$0
Estimated other operating expenses	**$106**	$106	$0

Residential Customer Information			
Average number of customers:			
Delmarva	**45,778**	43,471	2,307
Florida	**13,517**	13,311	206
Total	**59,295**	56,782	2,513

Gross margin for the Company's natural gas segment increased by $2.6 million, or eight percent, and other operating expenses increased by $971,000, or five percent, for the first six months of 2008 compared to the same period in 2007. The gross margin increases of $1.3 million for the natural gas transmission operation, $667,000 for the natural gas distribution operations and $618,000 for the natural gas marketing operation, are further explained below.

Natural Gas Transmission

The natural gas transmission operation achieved gross margin growth of $1.3 million, or 12 percent, in the first six months of 2008 compared to the same period in 2007. The significant items contributing to the increase in gross margin include the following:

- New transportation capacity contracts implemented in November 2007 contributed $591,000 to gross margin in the first six months of 2008. In 2008, these new transportation capacity contracts are expected to generate an additional annual gross margin of $1.2 million above 2007 gross margin.
- Interruptible revenue, net of required margin-sharing, increased $328,000 in the first six months of 2008 compared to the same period in 2007. Interruptible customers include large industrial customers whose service can be temporarily interrupted when necessary to meet the needs of firm customers. For the remainder of 2008, however, the Company expects its natural gas transmission operation to report a decrease of $192,000 in interruptible services revenue, compared to the corresponding period in 2007, because the operation reached its margin-sharing threshold in the second quarter of 2008; in 2007, it reached the threshold in the fourth quarter. Currently effective settlements in rate proceedings require the Company, upon reaching the margin-sharing threshold, to share 90% of its interruptible natural gas transmission revenues with its customers.
- The implementation of rate case settlement rates, effective September 1, 2007, contributed an additional $315,000 to gross margins in the first six months of 2008 compared to the same period in 2007. A further discussion of the FERC rate proceeding is provided within the "Rates and Regulatory" section of Note 4, "Commitments and Contingencies," to the unaudited Condensed Consolidated Financial Statements.
- The remaining $50,000 increase to gross margin is attributable to various other items.

An increase of $602,000 in other operating expenses partially offset the increased gross margin. The factors contributing to the increase in other operating expenses include the following:

- Corporate costs allocated to the natural gas transmission operation increased $543,000 as a result of: (1) $341,000 for the allocation of a portion of the terminated acquisition costs previously discussed, and (2) the Company updating its annual corporate cost allocations.
- Incentive compensation costs increased by $49,000 as a result of the improved operating results in 2008 compared to 2007.
- Rent and utility expenses increased $88,000 and $39,000, respectively, as Eastern Shore began incurring additional rental expense in January 2008 for a new office building.
- The increased level of capital investment caused increased property taxes of $148,000.
- Eastern Shore experienced increased costs of $40,000 for line locating in the first six months of 2008 compared to the same period in 2007.
- Other operating expenses relating to various items increased collectively by approximately $45,000.
- Partially offsetting the previously mentioned increases was a decrease of $230,000 in depreciation expense and a decrease of $120,000 in regulatory expense. Both of these lower expenses are a result of the 2007 rate case. As part of the rate case settlement that became effective September 1, 2007, the FERC approved a reduction in depreciation rates for Eastern Shore. Also, the Company incurred regulatory expenses in the first six months of 2007 associated with the FERC rate proceeding.

Natural Gas Distribution

Gross margin for the Company's natural gas distribution operations increased by $667,000, or three percent, for the first six months of 2008 compared to the same period in 2007. The gross margin increases of $565,000

for the Delmarva natural gas distribution operations and $102,000 for the Florida natural gas distribution operations are further explained below.

The Delmarva distribution operations experienced an increase of $565,000, or four percent, in gross margin. The significant items contributing to the increase in gross margin include the following:

- Continued residential and commercial customer growth contributed to increases in gross margin. Although the Company continues to see a slowdown in the new housing market as a result of unfavorable market conditions in the housing industry, the average number of residential customers on the Delmarva Peninsula increased by 2,307, or five percent, for the first six months of 2008 compared to the same period in 2007, and the Company estimates that these additional residential customers contributed approximately $518,000 to gross margin during the first six months of 2008. The Company further estimates that a two percent growth in the number of the Company's commercial customers during the first six months of 2008 in comparison to the same period in 2007 contributed approximately $221,000 to gross margin during the first six months of 2008.
- Interruptible services revenue, net of required margin-sharing, increased $282,000 in the second quarter of 2008 compared to the same period in 2007 as customers took advantage of lower natural gas prices in comparison to prices for alternative fuels.
- Partially offsetting these increases to gross margin was the negative impact of warmer weather and lower consumption per customer in the first six months of 2008 compared to the same period in 2007. The Company estimates that warmer weather reduced gross margin by approximately $464,000 as temperatures on the Delmarva Peninsula were nine percent warmer in the first six months of 2008 compared to the same period in 2007. In addition, the Company estimates that lower consumption per customer reduced margins by approximately $73,000 in 2008.
- The remaining $81,000 net increase in gross margin can be attributed to various factors, including the implementation of temporary rates by the Delaware division and lower industrial volumes.

Gross margin for the Florida distribution operation increased by $102,000, or two percent, in the first six months of 2008 compared to the same period in 2007. The higher gross margin for the period is primarily attributed to the increase in customers as the operation experienced a two percent growth in residential customers, an increase in non-residential customer volumes, and higher revenues from third-party natural gas marketers.

Other operating expense for the natural gas distribution operations increased by $429,000 in the first six months of 2008 compared to the same period in 2007. Among the key components producing this net increase were the following:

- Corporate costs allocable to the natural gas distribution operations increased $927,000 as a result of (1) $533,000 for the allocation of a portion of the terminated acquisition costs previously discussed, and (2) the Company updating its annual corporate cost allocations.
- Incentive compensation increased $295,000 in the first six months of 2008 as the Delmarva and Florida operations experienced improved earnings compared to the prior year.
- The Florida distribution operation experienced higher expense of $113,000 for outside services as the operation incurred additional costs for meter reading services and higher commissions to a third-party marketer.
- Property taxes increased by $114,000 as a result of the Company's continued capital investments.
- Vehicle fuel increased $47,000 in the first six months of 2008 as a result of higher gasoline and diesel prices.
- Depreciation expense and asset removal costs decreased $105,000 and $836,000, respectively, in the first six months of 2008 compared to the same period in 2007, primarily as a result of the Delmarva operations' rate proceedings. These rate proceedings provided for lower depreciation

allowances and lower asset removal cost allowances, which resulted in reductions of $179,000 and $937,000 in depreciation expense and asset removal costs, respectively, during the first six months of 2008.

- Maintenance costs for the Florida operation decreased $108,000 during the first six months of 2008 compared with the same period in 2007 due to the timing of compliance costs with the new federal pipeline integrity regulations, which were incurred in 2007.
- Merchant payment fees decreased by $97,000 primarily from the Company's Delmarva operations outsourcing the processing of credit card payments in April of 2007.
- In addition, other operating expenses relating to various other items increased by approximately $79,000.

Natural Gas Marketing

Gross margin for the natural gas marketing operation increased by $618,000, or 61 percent, for the first six months of 2008 compared to the same period in 2007. The increase in gross margin was primarily the result of a higher number of customers to which it provides supply management services, improved gas supply management techniques, and favorable imbalance resolutions with interstate pipelines. Other operating expenses decreased by $60,000 for the marketing operation; this decrease is attributable to lower payroll-related costs, benefits, and allowance for uncollectible accounts. These lower costs were partially offset by higher incentive compensation incurred as a result of the improved operating results and higher corporate costs as $16,000 was allocated to the operation for a portion the terminated acquisition costs.

Propane

The propane segment earned operating income of $2.8 million for the first six months of 2008 compared to $4.3 million for the corresponding quarter in 2007, a decrease of $1.5 million, or 35 percent.

For the Six Months Ended June 30,	2008	2007	Change
Revenue	**$39,297,957**	$34,416,976	$4,880,981
Cost of sales	**27,256,857**	21,263,372	5,993,485
Gross margin	**12,041,100**	13,153,604	(1,112,504)
Operations & maintenance	**7,457,009**	7,459,990	(2,981)
Terminated acquisition costs	**272,718**	-	272,718
Depreciation & amortization	**1,001,808**	904,368	97,440
Other taxes	**490,129**	461,588	28,541
Other operating expenses	**9,221,664**	8,825,946	395,718
Total Operating Income	**$2,819,436**	$4,327,658	($1,508,222)

Statistical Data — Delmarva Peninsula			
Heating degree-days ("HDD"):			
Actual	**2,703**	2,966	(263)
10-year average (normal)	**2,760**	2,737	23
Estimated gross margin per HDD	**$2,465**	$1,974	$491

The period-over-period decrease in operating income was due primarily to the Delmarva propane distribution operation, which experienced a lower gross margin from warmer weather on the Delmarva Peninsula, a lower margin per retail gallon and lower sales volumes in the first six months of 2008.

The gross margin decreases of $1.3 million for the Delmarva propane distribution operations and $14,000 for the Florida propane distribution operations, which were partially offset by a higher gross margin of $170,000 for the propane wholesale and marketing operation, are further explained below.

Delmarva Propane Distribution

The Delmarva propane distribution operation's decrease in gross margin of $1.3 million resulted from the following:

- Temperatures on the Delmarva Peninsula were nine percent warmer in the first six months of 2008 compared to the same period in 2007, which contributed to a decrease of 891,000 gallons, or six percent, sold during this period in 2008 compared to the same period in 2007. The Company estimates that the warmer weather and decreased volumes sold had a negative impact of approximately $648,000 for the Delmarva propane distribution operation compared to the first six months of 2007.
- Non-weather-related volumes sold in the first six months of 2008 decreased by 766,000 gallons, or six percent. This decrease in gallons sold reduced gross margin by approximately $567,000 for the Delmarva propane distribution operation compared to the first six months of 2007. Factors contributing to this decrease in gallons sold included: customer conservation, a reduced number of customers and the timing of propane deliveries.
- Gross margin decreased by $213,000 in the first six months of 2008, compared to the same period in 2007, because of a $0.02 decrease in the average gross margin per retail gallon. This decrease occur when market prices decrease and move closer to the Company's inventory price per gallon and the trend reverses when market prices of propane are greater than the Company's average inventory price per gallon.
- Revenues from miscellaneous fees, including items such as tank and meter rentals increased by $108,000 during the first six months of 2008 compared to the same period in 2007.
- The remaining $52,000 net increase in gross margin can be attributed to various factors, including service revenue.

Total other operating expenses increased by $258,000 for the Delmarva propane operations in the first six months of 2008, compared to the same period in 2007. The significant items contributing to this increase are explained below:

- Corporate costs allocable to the propane distribution operations increased $415,000 as a result of (1) $227,000 for the allocation of a portion of the terminated acquisition costs previously discussed, and (2) the Company updating its annual corporate cost allocations.
- Vehicle fuel increased $106,000 as a result of rising gasoline and diesel fuel costs.
- The allowance for uncollectible accounts increased $62,000 due to increased revenues resulting from the higher cost of propane.
- Mains fees increased by $51,000 in the first six months of 2008 compared to the same period in 2007 as a result of added CGS customers. This expenditure will continue to increase as more CGS customers are added.
- Depreciation and amortization expense increased by $41,000 as a result of an increase in the Company's capital investments compared to the prior year.
- The operations experienced lower expenses of $174,000 in the first six months of 2008 compared to the same period in 2007 for propane tank recertifications and maintenance. The Company incurred these costs in 2007 to maintain compliance with U.S. Department of Transportation ("DOT") standards, which require propane tanks or cylinders to be recertified twelve years from their date of manufacture and every five years thereafter.
- Incentive compensation and commissions costs decreased by $239,000 as a result of the lower operating results in 2008 compared to 2007.
- Other operating expenses relating to various items decreased collectively by approximately $4,000.

Florida Propane Distribution

The Florida propane distribution operation experienced a decrease in gross margin of $14,000, or two percent, in the first six months of 2008 compared to the same period in 2007. The lower gross margin is attributable to a decrease of $25,000 in service sales as the operation exits this portion of the business, which was partially offset by an increase of $12,000 based upon a higher average gross margin per retail gallon. Other operating expenses in the first six months of 2008, compared to the same period in 2007, increased by $77,000, primarily due to increased depreciation expense and increased corporate costs as $20,000 was allocated to the operations for a portion of the terminated acquisition costs.

Propane Wholesale and Marketing

Gross margin for the Company's propane wholesale marketing operation increased by $170,000, or 13 percent, in the first six months of 2008 compared to the same period in 2007. This increase reflects the larger number of market opportunities that arose in the first six months of 2008 due to price volatility in the propane wholesale market, which exceeded the level of price fluctuations experienced in 2007. The increase in gross margin was partially offset by higher other operating expenses of $61,000, due primarily to higher payroll costs and increased corporate costs as $26,000 was allocated to the operation for a portion of the terminated acquisition costs. The higher period-over-period payroll cost is the result of a position vacant during 2007 being filled in 2008.

Advanced Information Services

The advanced information services business experienced gross margin growth of approximately $352,000, or 11 percent, and contributed operating income of $175,000 for the second quarter of 2008, a decrease of $53,000 compared to the same period in 2007. Absent the terminated acquisition costs of $64,000 allocated to the advanced information segment in the second quarter of 2008, the segment would have experienced a slight increase in its operating income of $11,000 for the first six months of 2008 compared to the same period in 2007.

For the Six Months Ended June 30,	2008	2007	Change
Revenue	**$7,473,413**	$7,121,197	$352,216
Cost of sales	**4,000,948**	4,001,111	(163)
Gross margin	**3,472,465**	3,120,086	352,379
Operations & maintenance	**2,766,947**	2,464,659	302,288
Terminated acquisition costs	**64,461**	-	64,461
Depreciation & amortization	**75,838**	69,485	6,353
Other taxes	**390,278**	358,414	31,864
Other operating expenses	**3,297,524**	2,892,558	404,966
Total Operating Income	**$174,941**	$227,528	($52,587)

The increase of revenues in the first six months of 2008 resulted primarily from the following:

- Product sales increased by $204,000 as the operation enlarged its marketing and sales force.
- Consulting revenues increased by $87,000 as higher average billing rates overcame a two-percent decrease in the number of billable hours;
- Managed Database Administration ("MDBA") services, which provide clients with professional database monitoring and support solutions during business hours or around the clock increased by $75,000; and
- Revenues from other products and services decreased collectively by approximately $14,000.

Cost of sales remained relatively unchanged from period-to-period. An increase in cost of sales to provide services for the additional revenue earned in 2008 was offset by a reduction in cost of sales for billable employees that transferred to non-billable positions. Also, lower reimbursable expenses contributed to the

reduction in cost of sales as employees performed less travel during the period.

Other operating expenses increased by $405,000 in the first six months of 2008, compared to the same period in 2007. This increase in operating expenses is attributable to payroll costs, payroll taxes, and higher corporate costs as $64,000 was allocated to the segment for a portion of the terminated acquisition costs. Payroll costs increased as a result of the increase in non-billable staffing levels previously discussed.

Other Business Operations and Eliminations

Other operations, consisting primarily of subsidiaries that own real estate leased to other Company subsidiaries, generated an operating income of approximately $170,000 for the first six months of 2008 compared to an operating income of approximately $148,000 for the same period in 2007.

For the Six Months Ended June 30,	2008	2007	Change
Revenue	**$326,148**	$309,246	$16,902
Cost of sales	-	-	-
Gross margin	**326,148**	309,246	16,902
Operations & maintenance	**58,716**	51,475	7,241
Terminated acquisition costs	**12,396**	-	12,396
Depreciation & amortization	**57,244**	80,813	(23,569)
Other taxes	**28,941**	30,310	(1,369)
Other operating expenses	**157,297**	162,598	(5,301)
Operating Income - Other	**168,851**	146,648	22,203
Operating Income - Eliminations (1)	**1,539**	1,539	-
Total Operating Income	**$170,390**	$148,187	$22,203

(1) Eliminations are entries required to eliminate activities between business segments from the the consolidated results.

Interest Expense

Total interest expense for the first six months of 2008 decreased by approximately $212,000, or seven percent, compared to the same period in 2007. The lower interest expense is a result of the following developments:

- Interest on short-term borrowings increased by $130,000 in the first six months of 2008 compared to the same period in 2007, based upon an increase of $19.8 million in the Company's average short-term borrowing balance. The impact of the higher borrowing was partially offset by a weighted average interest rate that was nearly 2.6 percentage points lower in 2008 and interest that was capitalized during the period. The Company's average short-term borrowing during the first six months of 2008 was $35.6 million, with a weighted average interest rate of 3.14 percent, compared to $15.8 million, with a weighted average interest rate of 5.72 percent for the same period in 2007.
- Interest on long-term debt decreased by $282,000 in the first six months of 2008 compared to the same period in 2007 as the Company reduced its average long-term debt balance by $7.9 million. The Company's average long-term debt during the first six months of 2008 was $69.9 million, with a weighted average interest rate of 6.63 percent, compared to $77.8 million, with a weighted average interest rate of 6.68 percent for the same period in 2007.
- Interest expense for customer refunds increased by $210,000 in the first six months of 2008 due to the timing of regulatory filings and the settlement of rate cases.
- Interest expense for other items, such as interest on refunds and meter deposits, increased by $27,000 in the first six months of 2008 compared to the corresponding period in 2007.

Income Taxes

Income tax expense for the first six months of 2008 was $6.1 million compared to $5.9 million for the same period in 2007. The increase in income tax expense primarily reflects the higher earnings for the period and an increase of $50,000 to our tax accrual for uncertain tax positions as defined in FIN 48 related to our 2005 tax return that is currently under audit by the IRS. The effective tax rate for the first six months of 2008 is 39.3 percent compared to an effective tax rate of 38.4 percent for the same period in 2007.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Chesapeake's capital requirements reflect the capital-intensive nature of its business and are principally attributable to its investment in new plant and equipment and the retirement of outstanding debt. The Company relies on cash generated from operations, short-term borrowing and other sources to meet normal working capital requirements and to finance capital expenditures. During the first six months of 2008, net cash provided by operating activities was $9.6 million, cash used by investing activities was $15.6 million, and cash provided by financing activities was $6.6 million.

By comparison, during the first six months of 2007, net cash provided by operating activities was $20.6 million, cash used by investing activities was $15.9 million, and cash used by financing activities was $8.3 million.

As of February 20, 2008, the Board of Directors has authorized the Company to borrow up to $70.0 million of short-term debt, as required, from various banks and trust companies under short-term lines of credit. As of June 30, 2008, Chesapeake had five unsecured bank lines of credit with three financial institutions, totaling $90.0 million, none of which requires compensating balances. These bank lines are available to provide funds for the Company's short-term cash needs, to meet seasonal working capital requirements and to fund temporarily portions of its capital expenditures. Two of the bank lines, totaling $15.0 million, are committed. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks. The Company's outstanding balance of short-term borrowing at June 30, 2008 and December 31, 2007 was $57.1 million and $45.7 million, respectively.

Chesapeake has budgeted $37.5 million for capital expenditures during 2008. This amount includes $17.0 million for natural gas distribution, $13.3 million for natural gas transmission, $5.9 million for propane distribution and wholesale marketing, $290,000 for advanced information services and $887,000 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, to acquire land for a future bulk storage facility, and to replace equipment. The advanced information services expenditures are for computer hardware, software and related equipment. The other operations category includes general plant, computer software and hardware. The Company expects to fund the 2008 capital expenditures program from short-term borrowing, cash provided by operating activities, and other sources. 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 changing economic conditions, customer growth in existing areas, regulation, new growth opportunities, acquisition opportunities and availability of capital.

Capital Structure
The following presents the Company's capitalization as of June 30, 2008 and December 31, 2007:

	June 30, 2008		December 31, 2007	
	(In thousands, except percentages)			
Long-term debt, net of current maturities	**$63,181**	**33%**	$63,255	35%
Stockholders' equity	**$125,470**	**67%**	$119,577	65%
Total capitalization, excluding short-term debt	**$188,651**	**100%**	$182,832	100%

As of June 30, 2008, common equity represented 67 percent of total capitalization, compared to 65 percent at December 31, 2007. If short-term borrowing and the current portion of long-term debt were included in total capitalization, the equity component of the Company's capitalization would have been 50 percent at June 30, 2008, compared to 49 percent at December 31, 2007. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access 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.

Shelf Registration
In July 2006, the Company filed a registration statement on Form S-3 with the SEC to issue up to $40.0 million in new common stock and/or debt securities. The registration statement was declared effective by the SEC in November 2006. In the fourth quarter of 2006, the Company sold 600,300 shares of common stock, including the underwriter's exercise of their over-allotment option of 90,045 shares, under this registration statement, generating net proceeds of $19.7 million. At June 30, 2008, the Company had approximately $20.0 million remaining under this registration statement.

Cash Flows Provided By Operating Activities
Cash flows provided by operating activities were as follow:

For the Six Months Ended June 30,	2008	2007	Change
Net Income	**$9,393,266**	$9,472,879	($79,613)
Non-cash adjustments to net income	**7,505,849**	8,186,431	(680,582)
Changes in working capital	**(7,256,462)**	2,958,748	(10,215,210)
Net cash provided by operating activties	**$9,642,653**	$20,618,058	($10,975,405)

Period-over-period changes in our cash flows from operating activities are attributable primarily to net income, non-cash adjustments, such as depreciation and deferred income taxes, and changes in our working capital. The changes in working capital are affected by weather, the price of natural gas and propane, the timing of customer collections, payments of natural gas and propane purchases, and deferred gas cost recoveries.

For the first six months of 2008, net cash flow provided by operating activities was $9.6 million, a reduction of $11.0 million compared to the same period of 2007. The decrease was due primarily to an increase in accounts receivable, which was partially offset by an increase in accounts payable. These increases are due to the timing of collections and payments of trading contracts entered into by the Company's propane wholesale and marketing operation. Also contributing to the decrease in net cash flows provided by operating activities, was a reduction in regulatory liabilities, which resulted primarily from environmental expenditures and refunds to customers.

Cash Flows Used in Investing Activities
Net cash flows used in investing activities totaled $15.6 million and $15.9 million during the six months ended June 30, 2008 and 2007, respectively.

- Cash utilized for capital expenditures was $15.4 million and $16.0 million for the first six months of 2008 and 2007, respectively. Additions to property, plant and equipment in the first six months of 2008 were primarily for natural gas transmission ($5.9 million), natural gas distribution ($7.0 million), propane distribution ($1.6 million), and other operations ($889,000).

- The Company's environmental expenditures exceeded amounts recovered through rates charged to customers in the first six months of 2008 and 2007 by $199,000 and $136,000, respectively.

Cash Flows Provided by Financing Activities

Cash flows provided by financing activities totaled $6.6 million for the first six months of 2008 compared to $8.3 million of cash used for the first six months of 2007. Significant financing activities included the following:

- During the first six months of 2008, the Company had net borrowings from short-term debt of $11.5 million compared to a net repayment of $4.8 million in the first six months of 2007.
- During the first six months of 2008, the Company paid $3.8 million in cash dividends compared with dividend payments of $3.5 million for the same time period in 2007. The increase in dividends paid in the first six months of 2008 compared to 2007 reflects both growth in the annualized dividend rate and the increase in the number of shares outstanding.
- The Company repaid $1.0 million of long-term debt during the first six months of 2008 and 2007, respectively.

Off-Balance Sheet Arrangements

The Company has issued corporate guarantees to certain vendors of its propane wholesale marketing subsidiary and its Florida natural gas supply management subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of either subsidiary's default. Neither subsidiary has ever defaulted on its obligations to pay suppliers. The liabilities for these purchases are recorded in the Consolidated Financial Statements when incurred. The aggregate amount guaranteed at June 30, 2008 was $24.2 million, with the guarantees expiring on various dates in 2008 and the first six months of 2009.

In addition to the corporate guarantees, the Company has issued a letter of credit to its primary insurance company for $775,000, which expires on May 31, 2009. The letter of credit is provided as security to satisfy the deductibles under the Company's various insurance policies. There have been no draws on this letter of credit as of June 30, 2008.

Contractual Obligations

There has not been any material change in the contractual obligations presented in the Company's 2007 Annual Report on Form 10-K, except for commodity purchase obligations and forward contracts entered into in the ordinary course of the Company's business. Below is a summary of the commodity and forward contract obligations at June 30, 2008.

	Payments Due by Period				
Purchase Obligations	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**	**Total**
Commodities [1]	$20,342,267	$1,329,764	$0	$0	**$21,672,031**
Propane [2]	66,118,237	-	-	-	**66,118,237**
Total Purchase Obligations	$86,460,504	$1,329,764	$0	$0	**$87,790,268**

(1) In addition to the obligations noted above, the natural gas distribution and propane distribution operations have agreements with commodity suppliers that have provisions

allowing the Company to reduce or eliminate the quantities purchased. There are no monetary penalties for reducing the amounts purchased; however, the propane contracts allow the suppliers to reduce the amounts available in the winter season if the Company does not purchase specified amounts during the summer season. Under these contracts, the commodity prices will fluctuate as market prices fluctuate.

(2) The Company has also entered into forward sale contracts in the aggregate amount of $68.6 million. See Part I, Item 3, "Quantitative and Qualitative Disclosures about Market Risk," below for further information.

Environmental Matters

As more fully described in Note 4, "Commitments and Contingencies," to the Unaudited Condensed Consolidated Financial Statements, Chesapeake has incurred costs relating to the completed or ongoing environmental remediation at three former manufactured gas plant sites. In addition, Chesapeake is currently participating in discussions regarding possible responsibility of the Company for remediation of a fourth former manufactured gas plant site located in Cambridge, Maryland. Chesapeake believes that future costs associated with these sites will be recoverable in rates or through sharing arrangements with, or contributions by, other responsible parties.

OTHER MATTERS

Rates and Regulatory Matters

The Company's natural gas distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective state PSCs. Eastern Shore is subject to regulation by the FERC. At June 30, 2008, Chesapeake was involved in rates and/or regulatory matters in each of the jurisdictions in which it operates. Each of these rates or regulatory matters is fully described in Note 4, "Commitments and Contingencies," to the Unaudited Condensed Consolidated Financial Statements.

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 may convert to oil to satisfy their fuel requirements. Oil prices, as well as the prices of electricity and other fuels, which are normally lower than the price of natural gas, 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 sides of this business to compete with the fluctuations in its customers' alternative fuel prices. As a result of the transmission operation's conversion to open access and the Florida gas distribution division's restructuring of its services, these businesses have shifted from providing competitive sales service to providing transportation and contract storage services.

The Company's natural gas distribution operations in Delaware, Maryland and Florida offer transportation services to certain commercial and industrial customers. In 2002, the Florida operation extended such service to residential customers. With transportation service available on the Company's distribution systems, the Company is competing with third-party suppliers to sell gas to industrial customers. With respect to unbundled transportation services, the Company's competitors include interstate transmission companies if distribution customers are located close enough to a 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 Company's distribution operations in this manner. In certain situations, the Company's 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 service to additional classes of distribution customers in the future. The Company established a natural gas sales and supply

operation in Florida to compete for customers eligible for transportation services. The Company also provides such sales service in Delaware.

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 propane is typically less expensive than electricity, based on equivalent BTU value. Propane also competes with home heating oil as an energy source. 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.

The propane wholesale marketing operation competes against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages.

The advanced information services business faces significant competition from a number of larger competitors having substantially greater resources available to them. In addition, changes in the advanced information services industry are occurring rapidly, which could adversely impact the markets for the products and services offered by such businesses. This segment of the Company competes on the basis of technological expertise, service reputation and price.

Inflation

Inflation affects the cost of supply, labor, products and services required for operations, 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. In the Company's regulated natural gas distribution operations, 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 its regulated operations and closely monitors 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.

Recent Authoritative Pronouncements on Financial Reporting and Accounting

Recent accounting developments and their impact on our financial position, results of operations and cash flows are described in Note 5, "Recent Authoritative Pronouncements on Financial Reporting and Accounting," to the unaudited Condensed Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about 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 changes in interest rates. The Company's long-term debt consists of first mortgage bonds, fixed-rate senior notes and convertible debentures. All of the Company's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of long-term debt, including current maturities, was $69.8 million at June 30, 2008, as compared to a fair value of $72.9 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 evaluates whether to refinance existing debt or permanently refinance 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 when it enters into fixed-price contracts for supply. The Company can store up to approximately four million gallons (including leased storage and rail cars) 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. To mitigate the impact of price fluctuations, the Company has adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges of its inventory. Management reviewed the Company's storage position as of June 30, 2008 and elected not to hedge any of its inventories.

The Company's propane wholesale marketing operation is a party to natural gas liquids ("NGLs") forward contracts, primarily propane contracts, with various third parties. These contracts require that the propane wholesale marketing operation purchase or sell NGLs at a fixed price at fixed future dates. At expiration, the contracts are settled by the delivery of NGLs to the Company or the counter-party or booking out the transaction. Booking out is a procedure for financially settling a contract in lieu of 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 or receipt of a net amount equal to the difference between the current market price of the futures contract and the original contract price; however, they may also be settled for physical receipt or delivery of propane.

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for NGLs 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 the Company's oversight officials daily. In addition, the Risk Management Committee reviews periodic reports on market and the credit risk of counter-parties, 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, 2008 is presented in the following table.

At June 30, 2008	Quantity in gallons	Estimated Market Prices	Weighted Average Contract Prices
Forward Contracts			
Sale	38,472,000	$1.3550 — $1.9200	$1.7837
Purchase	37,379,982	$1.3650 — $1.9250	$1.7688

Estimated market prices and weighted average contract prices are in dollars per gallon.
All contracts expire in 2008 or in the first quarter of 2009.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures
The Chief Executive Officer and Chief Financial Officer of the Company, with the participation of other Company officials, have evaluated the Company's "disclosure controls and procedures" (as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of June 30, 2008. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2008.

Changes in Internal Control Over Financial Reporting
During the quarter ended June 30, 2008, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

As disclosed in Note 4, "Commitments and Contingencies," of the unaudited Condensed Consolidated Financial Statements, 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 government agencies concerning rates. In the opinion of management, the ultimate disposition of these proceedings and claims will not have a material effect on the consolidated financial position, results of operations or cash flows of the Company.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, including the risks and uncertainties described under Item 2 of Part I of this Form 10-Q, in the section entitled "Safe Harbor and Forward Looking Statements," consideration should be given to the factors discussed under Item 1A. "Risk Factors," in the Company's Form 10-K for the fiscal year ended December 31, 2007. These risks could affect the operations and/or financial performance of the Company. The risks described in the Form 10-K and this Form 10-Q are not the only risks that the Company faces. The Company's operations and/or financial performance could also be affected by additional factors that at present are not known to it or that the Company considers immaterial to its operations and/or financial performance.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2008 through April 30, 2008 [1]	557	$30.99	-	-
May 1, 2008 through May 30, 2008	-	-	-	-
June 1, 2008 through June 30, 2008	-	-	-	-
Total	557	$30.99	-	-

[1] Chesapeake purchased shares of stock on the open market for the purpose of reinvesting the dividend on deferred stock units held in the Rabbi Trust accounts for certain Senior Executives under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Note K to the Consolidated Financial Statements of the Company's Form 10-K filed with the Securities Exchange Commission on March 10, 2008. During the quarter, 557 shares were purchased through the reinvestment of dividends on deferred stock units.

Item 3. Defaults upon Senior Securities

None

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

The Annual Meeting of the Stockholders of Chesapeake Utilities Corporation was held on May 1, 2008. The items set forth below were submitted to a vote of security holders. Proxies for the meeting were solicited in accordance with Regulation 14A under the Securities Exchange Act of 1934, as amended.

The stockholders elected three nominees to the Company's Board of Directors to serve as Class III directors for three-year terms ending in 2011, and until their successors are elected and qualify. The following shows the separate tabulation of votes for each nominee:

Name	Votes For	Votes Withheld
Thomas J. Bresnan	6,357,555	182,717
Joseph E. Moore	6,308,808	231,464
John R. Schimkaitis	6,354,089	186,183

The terms of the following directors were not subject to vote (or election) and they remained in office after the meeting:

Class I Directors (Terms Expire in 2009)	Class II Directors (Terms Expire in 2010)
Calvert A. Morgan, Jr.	Ralph J. Adkins
Eugene H. Bayard	Richard Bernstein
Thomas P. Hill, Jr.	J. Peter Martin

The stockholders approved the ratification of the appointment of Beard Miller Company LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2008. There were 6,473,303 affirmative votes, 35,107 negative votes, and 31,862 abstentions. There were no broker non-votes for this matter.

The stockholders did not approve a shareholder proposal requesting that the Board of Directors take the steps necessary to eliminate classification of terms of the Board of Directors. The Board of Directors opposed this proposal. There were 2,418,582 affirmative votes, 2,635,724 negative votes, 71,889 abstentions, and 1,414,077 broker non-votes.

As of the Record Date, March 14, 2008, 6,806,487 shares of common stock of the Company, the only class of voting or equity securities of the Company, were outstanding.

Item 5. Other Information

None

Item 6. Exhibits

Exhibit	Description
31.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, dated August 11, 2008.
31.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, dated August 11, 2008.
32.1	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 11, 2008.
32.2	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 11, 2008.

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
Senior Vice President and Chief Financial Officer

Date: August 11, 2008

EXHIBIT 31.1

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, John R. Schimkaitis, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2008 of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2008

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Michael P. McMasters, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2008 of Chesapeake Utilities Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 11, 2008

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters
Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

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

I, John R. Schimkaitis, President and Chief Executive Officer 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 period ended June 30, 2008, 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 11, 2008

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

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

I, Michael P. McMasters, Senior Vice President and Chief Financial Officer 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 period ended June 30, 2008, 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/ MICHAEL P. MCMASTERS
Michael P. McMasters
August 11, 2008

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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

EXHIBIT B

PLANT ACCOUNT NUMBER	DESCRIPTION	TOTAL 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	$50,000
375	STRUCTURES AND IMPROVEMENTS	$0
376	MAINS	$2,006,165
378	M & R STATIONS - GENERAL	$65,000
379	M & R STATIONS - CITY GATE	$510,000
380	SERVICES	$393,125
381	METERS	$296,090
382	METER INSTALLATIONS	$205,905
383	HOUSE REGULATORS	$108,430
384	REGULATOR INSTALLATIONS	$0
385	INDUSTRIAL M & R STATION	$60,000
387	OTHER EQUIPMENT	$51,038
389	LAND AND LAND RIGHTS	$0
390	STRUCTURES AND IMPROVEMENTS	$75,000
391	OFFICE AND EQUIPMENT	$468,785
392	TRANSPORTATION	$226,524
393	STORES EQUIPMENT	$0
394	TOOLS, SHOP, AND GARAGE EQUIP	$10,000
395	LABORATORY EQUIPMENT	$0
396	POWER OPERATED EQUIPMENT	$20,500
397	COMMUNICATION EQUIPMENT	$218,800
398	MISCELLANEOUS EQUIPMENT	$7,500
399	OTHER TANGIBLE PROPERTY	$0
	TOTAL CAPITAL EXPENDITURES	$4,772,862

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, Directors Stock Compensation Plan, Employee Awards Stock 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 C

EXECUTION COPY

CHESAPEAKE UTILITIES CORPORATION

NOTE AGREEMENT

Dated October 31, 2008

$30,000,000

5.93% Senior Notes due October 31, 2023

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CHESAPEAKE UTILITIES CORPORATION
909 Silver Lake Boulevard
Dover, Delaware 19904

NOTE AGREEMENT

$30,000,000

5.93% Senior Notes due October 31, 2023

As of October 31, 2008

To the Purchasers listed in the
attached Purchaser Schedule

Ladies and Gentlemen:

Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), hereby agrees with the purchasers listed in the attached Purchaser Schedule (collectively, the "Purchasers" and, individually, a "Purchaser") as follows:

SECTION 1. PURCHASE AND SALE OF NOTES

Section 1.1 Issue of Notes.

The Company will authorize the issue of $30,000,000 principal amount of its 5.93% Senior Notes due on October 31, 2023 (the "Notes"). Each Note will bear interest on the unpaid principal balance thereof, from the date of the Note or the most recent date to which interest thereon has been paid, until the same is due and payable, at an annual rate of 5.93% (computed on the basis of a 360-day year of twelve 30-day months), payable semi-annually on the 30th day of April and the 31st day of October in each year, commencing on April 30, 2009. The Notes will be subject to certain mandatory principal repayments prior to maturity, as provided in Section 2.1 and will mature on October 31, 2023. Payments of principal, Make Whole Amount, if any, and, to the extent permitted by law, interest not paid when due will bear interest from the date such payment was due until paid at a rate per annum from time to time equal to the greater of (i) 7.93% or (ii) the rate of interest publicly announced by JPMorgan Chase Bank from time to time in New York City as its Prime Rate. The Notes will be registered notes in the form set out in Exhibit A.

Section 1.2 The Closing.

The Company agrees to sell to each Purchaser and each Purchaser agrees to purchase from the Company, in accordance with the provisions of this Agreement, the principal amount of the Notes indicated for such Purchaser on the Purchaser Schedule attached hereto at par. The closing of the sale and purchase of the Notes will be held at 10:00 a.m. on October 31, 2008 (the "Closing Date"), at the offices of Schiff Hardin LLP, 6600 Sears Tower, Chicago, Illinois. On the Closing Date, the Company will deliver to each Purchaser one or more Notes, as specified in the Purchaser Schedule attached hereto in the aggregate amount of each Purchaser's purchase, dated the Closing Date and payable to such Purchaser or such Purchaser's nominee(s), if any, listed in the Purchaser Schedule, against payment in immediately available funds. Each Purchaser's obligations hereunder are several and not joint and no Purchaser shall have any obligation or liability to any Person for the performance or nonperformance by any other Purchaser hereunder.

Section 1.3 Expenses.

Whether or not the Notes are sold, the Company will, upon presentation to the Company of documentation in reasonable detail, pay the following expenses relating to this Agreement, including:

(a) the cost of reproducing this Agreement and the Notes, appropriately completed;

(b) the reasonable fees and disbursements (including the cost of obtaining the private placement number) of the Purchasers' special counsel;

(c) the cost of any fees of agents, brokers or dealers or otherwise incurred in connection with the sale of the Notes pursuant to this Agreement but not with respect to any subsequent resale;

(d) each Purchaser's reasonable out-of-pocket expenses incurred in negotiating this Agreement;

(e) the cost of delivering to or from any Purchaser's home office, insured to any Purchaser's satisfaction, the Notes purchased by any Purchaser, any Note surrendered by any Purchaser to the Company pursuant to this Agreement and any Note issued to any Purchaser in substitution or replacement for a surrendered Note; and

(f) all costs (including reasonable fees and expenses of counsel) related to proposed or actual modifications of, or proposed or actual consents under, this Agreement.

The obligations of the Company under this Section 1.3 shall survive the payment of the Notes and the termination of this Agreement, and shall continue regardless of whether or not the Closing Date occurs and whether or not any Purchaser has purchased Notes hereunder.

Section 1.4 Closing Conditions.

Each Purchaser's obligation to purchase and pay for the Notes to be purchased by such Purchaser hereunder is subject to the satisfaction or waiver in writing by the Purchasers, on or before the Closing Date, of the following conditions:

(a) Certain Documents. Such Purchaser shall have received the following dated the Closing Date:

(i) The Notes to be purchased by such Purchaser.

(ii) Certified copies of the resolutions of the Board of Directors of the Company approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(iv) Certified copies of the Certificate of Incorporation and By-laws of the Company.

(v) Good standing certificates for the Company from each of the Secretary of State of Delaware, the Secretary of State of Maryland, and the Secretary of State of Florida, dated of a recent date.

(b) Opinion of Purchasers' Special Counsel. Such Purchaser shall have received from Schiff Hardin LLP, who are acting as special counsel for the Purchasers in connection with this transaction, a favorable opinion satisfactory to the Purchasers as to such matters as the Purchasers may request.

(c) Opinion of Company's Special and Local Counsel. Such Purchaser shall have received from Baker & Hostetler LLP, who are acting as special counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-1 hereto, from Parkowski, Guerke and Swayze, who are acting as Delaware counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-2 hereto, from DLA Piper LLP, who are acting as Maryland counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-3 hereto, and from Akerman Senterfitt, who are acting as Florida counsel for the Company in connection with this transaction, a favorable opinion satisfactory to the Purchasers substantially in the form of Exhibit B-4 hereto. The Company hereby directs each such counsel to deliver such opinions, agrees that the issuance and sale of any Notes will constitute a reconfirmation of such direction, and understands and agrees that each Purchaser will rely on such opinions.

(d) Representations and Warranties; No Default. The representations and warranties contained in Section 6 shall be true on and as of the Closing Date, except to the extent of changes caused by the transactions herein contemplated; there shall exist on the Closing Date no Event of Default or Default; and the Company shall have delivered to such Purchaser an Officer's Certificate, dated the Closing Date, to both such effects. The delivery of such Officer's Certificate will constitute the repeating of such representations and warranties by the Company as of the Closing Date.

(e) Purchase Permitted By Applicable Laws. The purchase of and payment for the Notes to be purchased by such Purchaser on the Closing Date on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may reasonably request to establish compliance with this condition. The orders of the Delaware and Florida State Commissions referred to in Section 6.10 shall be satisfactory to such Purchaser and on the Closing Date shall be in full force and effect and, except for Order No. 7464 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 08-305 dated October 23, 2008, final. No appeal, review or contest of either thereof shall be pending on the Closing Date, and, as of the Closing Date, except for Order No. 7464 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 08-305 dated October 23, 2008, the time for appeal or to seek review or reconsideration of such orders shall have expired. Any conditions contained in either order shall have been satisfied to such Purchaser's reasonable satisfaction. Such Purchaser and its special counsel shall have received copies of such documents and papers (including, without limitation, a certified or attested copy of such orders) as such Purchaser may reasonably request in connection therewith or as a basis for the Purchasers' special counsel's closing opinion, all in form and substance satisfactory to such Purchaser and the Purchasers' special counsel.

(f) Diversification Event. No Diversification Event shall have occurred.

(g) Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and such Purchaser shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

SECTION 2. PAYMENTS

Section 2.1 Required Payments.

(a) Until the Notes are paid in full, the Company will pay $1,500,000 in aggregate principal amount of the Notes on the 30th day of April and the 31st day of October in each year, commencing on April 30, 2014. The entire outstanding principal amount and unpaid interest thereon shall be due and payable on October 31, 2023. Prepayments on each holder's Notes

under Section 2.2 shall be applied to mandatory payments on such Notes in inverse order of maturity and the Company's obligation to make the payments required by this Section 2.1 shall not be reduced by any payment pursuant to Section 2.2. Notwithstanding the foregoing, upon any payment of less than all of the outstanding Notes pursuant to Section 2.1(b) hereof or any acquisition of any Notes by the Company or any Subsidiary or Affiliate permitted by Section 9.7(b) hereof, the principal amount of such required prepayment of the Notes becoming due under this Section 2.1 on or after the day of such payment or acquisition shall be reduced in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment or purchase.

(b) If, at any time, the aggregate net book value of all assets that are used in the regulated utilities business segments of the Company and its Subsidiaries is less than 50% of Consolidated Total Assets (a "Diversification Event"), any holder of any of the Notes then outstanding may elect, at its option, by notice to the Company, to declare the outstanding Notes held by such holder to be due and payable on the next business day after the 30th day following such notice (the "Required Payment Date"). Upon such election by any holder of the Notes, the Company will pay the aggregate principal amount of such holder's Notes on the Required Payment Date, together with interest accrued to the Required Payment Date on such principal amount, and a premium equal to the Make Whole Amount, if any, applicable to such payment. Upon the occurrence of a Diversification Event, the Company shall deliver to each holder of the outstanding Notes a notice that such event has occurred and the reason or reasons for such occurrence.

Section 2.2 Optional Prepayments.

(a) At a Premium. The Company may prepay the Notes in whole or part, at any time and from time to time, in multiples of $100,000, by payment of 100% of the principal amount then being prepaid, together with interest accrued to the date of prepayment on the principal amount being prepaid and a premium equal to the Make Whole Amount, if any, applicable to such prepayment; provided that no partial prepayment shall be in an amount less than (i) $1,000,000 or (ii) the aggregate principal amount remaining outstanding, whichever is less.

(b) Notice of Optional Prepayment. The Company will give written notice of any optional prepayment of the Notes to each holder of Notes at least 15 but not more than 45 days before the date fixed for prepayment, specifying (1) such date (the "Prepayment Date"), and (2) the amount of principal and interest with respect to the Notes and such holder's Notes to be prepaid on such date. Any such notice of prepayment will be irrevocable. Upon the giving of such notice by the Company, the principal amount of the Notes specified in the notice, together with interest accrued to the Prepayment Date on such principal amount, and a premium equal to the Make Whole Amount, if any, applicable to such payment, shall be due and payable on the Prepayment Date, and the Company shall pay such amount on the Prepayment Date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to Section 2.2(a), give telephonic notice of the principal amounts of the Note to be prepaid and the prepayment date to each Purchaser which shall have designated a recipient of such notices in the Purchaser Schedule attached hereto or by notice in writing to the Company.

Section 2.3 Partial Payment Pro Rata.

If there is more than one Note outstanding, the principal amount of each required or optional partial payment of the Notes, other than a prepayment pursuant to Section 2.1(b), will be allocated among the Notes at the time outstanding in proportion, as nearly as practicable, to the respective outstanding principal amounts of the Notes.

SECTION 3. INFORMATION AS TO COMPANY

Section 3.1 Financial and Business Information.

The Company will deliver in duplicate to each Purchaser, if at the time such Purchaser or such Purchaser's nominee holds any Notes (or if such Purchaser is obligated to purchase any Notes), and to each other Institutional Holder of outstanding Notes:

(a) Quarterly Statements--as soon as practicable and in any event within sixty (60) days after the end of each of the first three quarterly fiscal periods in each fiscal year of the Company:

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter and as at the end of the corresponding quarter in the most recently completed fiscal year and a consolidating balance sheet of the Company and its Subsidiaries as of the end of such quarter, and

(ii) consolidated statements of income, retained earnings and cash flows of the Company and its Subsidiaries for that quarter and for the portion of the fiscal year ending with such quarter, and for the corresponding periods in the prior fiscal year and consolidating statements of income, retained earnings and cash flows of the Company and its Subsidiaries for such quarter and for the portion of the fiscal year ending with such quarter,

setting forth in the statements of income for each fiscal period, the specific dollar amounts of depreciation charged, lease rental expense and interest expense on Indebtedness, accompanied by a certificate signed by a principal financial officer of the Company stating that such financial statements present fairly the financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied, with such adjustments as may be required to present fairly the financial statements therein contained; provided that if the Company is subject to the reporting requirements of the Exchange Act, the delivery to such recipients of the Company's Quarterly Report on Form 10-Q containing such information within the specified time period shall satisfy this requirement;

(b) Annual Statements--as soon as practicable and in any event within one hundred twenty (120) days after the end of each fiscal year of the Company:

(i) a consolidated and consolidating balance sheet of the Company and its Subsidiaries, as at the end of that fiscal year, and

(ii) consolidated and consolidating statements of income, retained earnings and cash flows of the Company and its Subsidiaries, for that year,

setting forth in the case of such consolidated financial statements, the figures for the previous fiscal year in comparative form, and setting forth in such statements of income, the specific dollar amounts of depreciation charged, lease rental expense, and interest expense on Indebtedness, and accompanied in the case of such consolidated financial statements by an opinion of a firm of independent public accountants of recognized national standing stating that such financial statements present fairly the results of the operations and financial condition of the companies being reported upon and have been prepared in accordance with generally accepted accounting principles consistently applied (except for changes in application in which such accountants concur); provided that if the Company is subject to the reporting requirements of the Exchange Act, the delivery to such recipients of the Company's Quarterly Report on Form 10-K containing such information within the specified time period shall satisfy this requirement;

(c) Audit Reports--promptly upon receipt thereof, one copy of each other report submitted to the Company or any Subsidiary by independent accountants in connection with any annual, interim or special audit made by them of the books of the Company or any Subsidiary;

(d) SEC and Other Reports--promptly upon their becoming available, copies of each periodic report (including Forms 8-K, 10-K, and 10-Q, proxy statement and registration statement or prospectus (other than registration statements on Form S-8 and any corresponding prospectus) relating to Securities of the Company filed with or delivered to any securities exchange, the Securities and Exchange Commission or any successor agency, and promptly upon transmission thereof, copies of such other financial statements, notices and reports, if any, as the Company or any Subsidiary shall send to its public stockholders;

(e) Annual Regulatory Reports--promptly upon their becoming available, copies of each annual report required to be filed by the Company or any Subsidiary with any of the State Commissions or with the FERC;

(f) Notice of Default or Event of Default-- immediately upon becoming aware of the existence of any Default or Event of Default, a notice describing in reasonable detail its nature and what action the affected Company or Subsidiary is taking or proposes to take with respect thereto;

(g) Notice of Claimed Default--immediately upon becoming aware that the holder of any Note or of any other evidence of Indebtedness or other Security of the Company or any Subsidiary has given notice (or taken any other action) with respect to a claimed default, breach, Default or Event of Default, a notice describing in reasonable detail the notice given (or action taken) and in reasonable detail the nature of the claimed default, breach, Default or Event of Default and what action the affected Company or Subsidiary is taking or proposes to take with respect thereto;

(h) Report on Proceedings--promptly upon the Company's making public information with respect to (1) any proposed or pending investigation of it or any Subsidiary by any governmental authority or agency, or (2) any court or administrative proceeding, which in either

case involves the possibility of materially and adversely affecting the Properties, business, prospects, profits or financial condition of the Company and its Subsidiaries taken as a whole, a notice specifying its nature and the action the Company is taking with respect thereto; and

(i) Requested Information--with reasonable promptness, any other data and information which may be reasonably requested from time to time, including without limitation any information required to be made available at any time to any prospective transferee of any Notes in order to satisfy the requirements of Rule 144A under the Securities Act of 1933, as amended.

Section 3.2 Officer's Certificates.

With each set of financial statements delivered pursuant to Section 3.1(a) or 3.1(b), the Company will deliver to each Purchaser a certificate signed by its Chief Financial Officer and setting forth:

(a) Covenant Compliance--the information required in order to establish compliance with Section 4 during the period covered by the financial statements then being furnished; and

(b) Default or Event of Default--that the signer has reviewed the relevant terms of this Agreement and has made, or caused to be made, under the signer's supervision, a review of the transactions and condition of the Company and its Subsidiaries from the beginning of the period covered by the financial statements then being furnished and that the review has not disclosed the existence of any Default or Event of Default or, if a Default or Event of Default exists, describing its nature.

Section 3.3 Accountants' Certificates.

Each set of annual financial statements delivered pursuant to Section 3.1(b) will be accompanied by a certificate of the accountants who certify such financial statements, stating that, in making the audit necessary to the certification of such financial statements, they have reviewed this Agreement and obtained no knowledge of any Event of Default or Default, or, if they have obtained knowledge of any Event of Default or Default, specifying the nature and period of existence thereof.

Section 3.4 Inspection.

The Company will permit each Purchaser's representatives, while such Purchaser or such Purchaser's nominee holds any Note, and the representatives of any other Institutional Holder of the Notes to visit and inspect any of the Properties of the Company or any Subsidiary, to examine and make copies and extracts of all their books of account, records, reports and other papers, and to discuss their respective affairs, finances and accounts with their respective officers, employees with management duties and independent public accountants (and by this provision the Company authorizes said accountants to so discuss the finances and affairs of the Company and its Subsidiaries), all upon reasonable notice, at reasonable times and as often as may be reasonably requested. Any holder making any visit or inspection pursuant to this Section 3.4 shall pay its own costs and expenses thereof unless, at the time of such visit or inspection,

there shall exist a Default or Event of Default, in which event the Company shall bear the costs and expenses thereof.

SECTION 4. COMPANY BUSINESS COVENANTS

The Company covenants that on and after the date of this Agreement until the Notes are paid in full:

Section 4.1 Payment of Taxes and Claims.

The Company shall, and shall cause each Subsidiary to, pay, before they become delinquent,

(a) all taxes, assessments and governmental charges or levies imposed upon it or its Property, and

(b) all claims or demands of materialmen, mechanics, carriers, warehousemen, landlords and other like Persons which, if unpaid, might result in the creation of a Lien upon its Property,

provided that items of the foregoing description need not be paid while being contested in good faith and by appropriate proceedings and provided further that adequate book reserves have been established with respect thereto and provided further that the owning company's title to, and its right to use, its Property is not materially adversely affected thereby.

Section 4.2 Maintenance of Properties and Corporate Existence.

The Company shall, and shall cause each Subsidiary to:

(a) Property--maintain its Property in good condition and make all necessary renewals, replacements, additions, betterments and improvements thereto;

(b) Insurance--maintain, with financially sound and reputable insurers, insurance with respect to its Properties and business against such casualties and contingencies, of such types (including public liability, larceny, embezzlement or other criminal misappropriation insurance) and in such amounts as is customary in the case of corporations of established reputations engaged in the same or a similar business and similarly situated;

(c) Financial Records--keep true books of records and accounts in which full and correct entries will be made of all its business transactions, and will reflect in its financial statements adequate accruals and appropriations to reserves, all in accordance with generally accepted accounting principles;

(d) Corporate Existence and Rights--do or cause to be done all things necessary (a) to preserve and keep in full force and effect its existence, rights and franchises and (b) except as provided in Section 4.10 or 4.11, to maintain each Subsidiary as a Subsidiary; and

(e) Compliance with Law--comply with all laws (including but not limited to environmental laws), ordinances, or governmental rules and regulations (including, without limitation, federal, state and local environmental laws, rules and regulations) to which it is subject and maintain any licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Properties or to the conduct of its business, if the failure to so comply or the failure to so maintain might materially adversely affect the Properties, business, prospects, profits or condition (financial or otherwise) of the Company and its Subsidiaries or the ability of the Company to perform its obligations set forth in this Agreement and in the Notes.

Section 4.3 Payment of Notes and Maintenance of Office.

The Company will punctually pay or cause to be paid the principal and interest (and premium, if any) to become due in respect of the Notes according to the terms thereof and will maintain an office at the address of the Company set forth in Section 9.1 where notices, presentations and demands in respect of this Agreement or the Notes may be made upon it. Such office shall be maintained at such address until such time as the Company shall notify the holders of the Notes of a change of location of such office within such State.

Section 4.4 Fixed Charge Coverage Ratio.

The Company will, for each fiscal year of the Company, maintain Consolidated Net Earnings Available for Fixed Charges at not less than 120% of Consolidated Fixed Charges.

Section 4.5 Minimum Consolidated Net Worth.

The Company will at all times maintain Consolidated Net Worth at not less than $50,000,000.

Section 4.6 Incurrence of Indebtedness.

The Company will not, nor will it permit any of its Subsidiaries to, create, incur, assume, become liable for, or guaranty, or permit any of its Property to become subject to, any Funded Indebtedness (and in the case of a Subsidiary, Current Indebtedness) other than:

(i) Funded Indebtedness represented by the Notes and the outstanding Indebtedness set forth in Schedule 4.6;

(ii) Unsecured Funded Indebtedness of the Company, if after giving effect thereto and to any concurrent transactions, the aggregate principal amount of outstanding secured and unsecured Funded Indebtedness of the Company and secured and unsecured Current and Funded Indebtedness of the Subsidiaries (excluding Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary) does not exceed 65% of Total Capitalization; and

(iii) Purchase Money Indebtedness of the Company or a Subsidiary and unsecured Current or Funded Indebtedness of a Subsidiary, if after giving effect thereto and to any concurrent transactions, (a) the conditions set forth in Section 4.6(ii) are satisfied, and (b) the aggregate principal amount of outstanding

Purchase Money Indebtedness of the Company and its Subsidiaries and the unsecured Current and Funded Indebtedness of the Subsidiaries, excluding Current or Funded Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary, does not exceed 20% of Consolidated Tangible Net Worth.

For the avoidance of doubt, this Section 4.6 does not prohibit the Company from creating, incurring, becoming liable for or guaranteeing any Current Indebtedness.

Section 4.7 Guaranties.

The Company will not, and will not permit any Subsidiary to, become liable for or permit any of its Property to become subject to any Guaranty except Guaranties under which the maximum aggregate amount of Indebtedness, dividend or other obligation being guaranteed can be mathematically determined at the time of issuance. Each Guaranty permitted by this Section 4.7 must comply with the applicable requirements of Section 4.6 above.

Section 4.8 Liens and Encumbrances.

The Company will not, and will not permit any Subsidiary to, cause or permit or agree or consent to cause or permit in the future (upon the happening of a contingency or otherwise), any of its Property, whether now owned or subsequently acquired, to be subject to a Lien except:

(a) Liens securing the payment of taxes, assessments or governmental charges or levies or the demands of suppliers, mechanics, carriers, warehousers, landlords and other like Persons, provided that payment thereof is not at the time required by Section 4.1;

(b) Liens incurred or deposits made in the ordinary course of business (i) in connection with worker's compensation, unemployment insurance, social security and other like laws, or (ii) to secure the performance of letters of credit, bids, tenders, sales contracts, leases, statutory obligations, surety, appeal and performance bonds and other similar obligations, in each case not incurred in connection with the borrowing of money, the obtaining of advances or the payment of the deferred purchase price of Property;

(c) attachment, judgment and other similar Liens arising in connection with court proceedings, provided that (i) execution and other enforcement are effectively stayed, (ii) all claims which the Liens secure are being actively contested in good faith and by appropriate proceedings, (iii) adequate book reserves have been established with respect thereto, and (iv) the owning company's right to use, its Property is not materially adversely affected thereby;

(d) Liens on Property of a Subsidiary, provided that they secure only obligations owing to the Company or a Wholly-Owned Subsidiary;

(e) the Liens existing at the date of this Agreement which are set forth in Schedule 4.8(e);

(f) Liens securing Purchase Money Indebtedness of the Company or a Subsidiary, provided (i) the incurrence of such Purchase Money Indebtedness is then permitted by Section 4.6, and (ii) after giving effect to the incurrence of such Purchase Money Indebtedness and to any concurrent transactions, the aggregate amount of outstanding Purchase Money Indebtedness of the Company and its Subsidiaries and the unsecured Current and Funded Indebtedness of the Subsidiaries (excluding Indebtedness owed by a Subsidiary to the Company or a Wholly-Owned Subsidiary) does not exceed 20% of Consolidated Tangible Net Worth; and provided further that no such Lien shall extend to or cover any Property not originally subject thereto, other than improvements to the Property originally subject thereto; and

(g) other Liens securing obligations that in the aggregate do not exceed $100,000.

Section 4.9 Restricted Payments.

Except as provided in this Section 4.9, the Company will not, and the Company will not permit any Subsidiary to,

(a) declare or pay any dividends, either in cash or property, on any shares of capital stock of the Company (except dividends payable solely in shares of capital stock of the Company);

(b) directly or indirectly, purchase, redeem or retire any share of capital stock of the Company or any warrants, rights or options to purchase or acquire any shares of capital stock of the Company (other than shares of capital stock or warrants, rights or options to purchase or acquire shares of capital stock issued to employees, directors or agents of the Company pursuant to a benefit or compensation plan or agreement of the Company); or

(c) make any other payment or distribution, either directly or indirectly, in respect of capital stock of the Company (such declarations, payments, redemptions or retirements being called "Restricted Payments"),

if at the time of any such Restricted Payment and after giving effect thereto, the aggregate amount of all Restricted Payments made, paid or declared since the Closing Date would exceed the sum of (x) $10,000,000 plus (y) 100% of Consolidated Net Income for the period beginning on January 1, 2003 and ending on the date of the proposed Restricted Payment, computed on a cumulative basis (or if Consolidated Net Income is a deficit figure for the period, then minus 100% of such deficit).

Section 4.10 Sale of Property and Subsidiary Stock.

(a) The Company will not, and will not permit any Subsidiary to, except in the ordinary course of business, sell, lease, transfer or otherwise dispose of any of its assets (not including Excluded Assets); provided that the foregoing restriction does not apply to the sale of assets for a cash consideration to a Person other than an Affiliate, if all of the following conditions are met:

(i) the amount of such assets (valued at net book value), together with all other assets of the Company and Subsidiaries previously disposed of (other than in the ordinary course of business) as permitted by this Section 4.10(a) and the assets of any Subsidiary disposed of as permitted by Section 4.10(b)(ii) during the fiscal year in which the disposition occurs does not exceed 10% of Consolidated Total Assets as of the end of the fiscal year then most recently ended; provided that assets, as so valued, may be sold in excess of 10% of Consolidated Total Assets in any fiscal year if either (1) within one year of such sale, the proceeds from the sale of such assets are used, or committed by the Company's Board of Directors to be used, to acquire other assets of at least equivalent value and earning power, or (2) with the written consent of the holders of the Notes, the proceeds from sale of such assets are used immediately upon receipt to prepay pro rata the Notes under Section 2.2(a) hereof and other senior Funded Indebtedness of the Company; and

(ii) in the opinion of the Company's Board of Directors, the sale is for fair value and is in the best interest of the Company; and

(iii) immediately after the consummation of the sale, and after giving effect thereto, no Default or Event of Default would exist.

(b) The Company will not, and will not permit any Subsidiary to, dispose of its investment in any Subsidiary, and the Company will not, and will not permit any Subsidiary to, issue or transfer any shares of a Subsidiary's capital stock or any other Securities exchangeable or convertible into such Subsidiary's stock (such stock and other Securities being called "Subsidiary Stock"), if the effect would be to reduce the direct or indirect proportionate interest of the Company in the outstanding Subsidiary Stock of the Subsidiary whose shares are the subject of the transaction, provided that these restrictions do not apply to (x) the issue of directors' qualifying shares or (y) the sale for a cash consideration to a Person other than an Affiliate of the entire investment of the Company and its other Subsidiaries (i) in any Excluded Assets or (ii) in any other Subsidiary provided the Company would be permitted to dispose of all of the assets of such other Subsidiary at the time in compliance with the conditions specified in paragraphs (i), (ii) and (iii) of Section 4.10(a).

Section 4.11 Merger and Consolidation.

The Company will not, and will not permit any Subsidiary to, be a party to any merger or consolidation or sell, lease or otherwise transfer all or substantially all of its Property, provided that the Company may merge or consolidate with, or sell substantially all of its assets to, another corporation if all of the following conditions are met:

(i) the surviving or acquiring corporation is organized under the laws of the United States or a jurisdiction thereof,

(ii) the surviving or acquiring corporation, if not the Company, expressly and unconditionally assumes in writing the covenants and obligations to be performed by the Company under the Notes and this Agreement, such

assumption to be in a form acceptable to the holder or holders of not less than 66-2/3% in principal amount of all Notes at the time outstanding, and

(iii) the surviving or acquiring corporation could, immediately after giving effect to the transaction, incur at least $1.00 of additional Funded Indebtedness pursuant to Section 4.6(ii), and at the time of such transaction and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing; and

provided, further, that any Subsidiary may merge or consolidate with or into the Company or any other Subsidiary so long as (x) immediately after giving effect to the transaction, the Company can incur at least $1.00 of additional Funded Indebtedness consistent with Section 4.6(ii), (y) at the time of such transaction and immediately after giving effect thereto, no Default or Event of Default shall have occurred and be continuing, and (z) in any merger or consolidation involving the Company, the Company shall be the surviving or continuing corporation.

Section 4.12 Transactions with Affiliates.

The Company will not, and will not permit any Subsidiary to, enter into any transaction (including the purchase, sale or exchange of Property or the rendering of any service) with any Affiliate except in the ordinary course of and pursuant to the reasonable requirements of such Company's or Subsidiary's business and upon fair and reasonable terms which are at least as favorable to the Company or the Subsidiary as would be obtained in a comparable arm's-length transaction with a non-Affiliate.

Section 4.13 Loans, Advances and Investments.

The Company will not, and will not permit any Subsidiary to, make or permit to remain outstanding any investment in any Property or own, purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, or make or permit to remain outstanding any loan or advance to, any Person, (herein collectively referred to as "Investments") except that the Company or a Subsidiary may make or permit to remain outstanding Permitted Investments.

Section 4.14 Sale-Leaseback.

Without the written consent of the holder or holders of not less than 66-2/3% in principal amount of all Notes at the time outstanding, neither the Company nor any Subsidiary will sell and lease back (whether or not under a Financing Lease) any Property.

Section 4.15 ERISA Compliance.

(a) The Company will not permit the present value of all employee benefits vested under all Defined Benefit Plans maintained by the Company and its Subsidiaries, determined as of the end of any Defined Benefit Plan year, to exceed the present value of the assets allocable to such vested benefits as of such date of determination;

(b) All assumptions and methods used to determine the actuarial valuation of vested employee benefits under Defined Benefit Plans and the present value of assets of Defined Benefit Plans shall be reasonable in the good faith judgment of the Company and shall comply with all requirements of law, provided, however, that for purposes of the foregoing the Company shall be entitled to rely upon the independent actuaries for its Defined Benefit Plans; and

(c) The Company will not permit at any time, and will not permit any Subsidiary at any time to permit, any Pension Plan maintained by it to:

(i) engage in any "prohibited transaction" as such term is defined in section 4975 of the Code or described in section 406 of ERISA;

(ii) incur any "accumulated funding deficiency" as such term is defined in section 302 of ERISA, whether or not waived; or

(iii) terminate under circumstances which could result in the imposition of a Lien on the Property of the Company or any Subsidiary pursuant to section 4068 of ERISA.

Section 4.16 Use of Proceeds.

Neither the Company nor any Subsidiary owns or has any present intention of acquiring any "margin stock" as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called "margin stock"). The proceeds of sale of the Notes will be used to finance or refinance capital expenditures and for general corporate purposes. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any margin stock or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is currently a margin stock or for any other purpose which might constitute this transaction a "purpose credit" within the meaning of such Regulation U. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation T, Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

Section 4.17 Terrorism Sanctions Regulations.

The Company will not and will not permit any Subsidiary to (a) become a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (b) knowingly engage in any dealings or transactions with any such Person.

SECTION 5. DEFAULT

Section 5.1 Nature of Default.

An "Event of Default" shall exist if any of the following occurs and is continuing:

(a) Principal, Premium or Interest Payments--failure to pay principal or Make Whole Amount on any Note on or before the date the payment is due, or failure to pay interest on any Note on or before the fifth day after the payment is due;

(b) Breach of Particular Covenants--failure to comply with any covenant contained in Sections 4.4 through 4.11 or Section 4.14, 4.15 or 4.17;

(c) Other Breaches--failure to comply with any other provision of this Agreement, which continues for more than 30 days after it first becomes known to the chief executive officer, president, chief financial officer or treasurer of the Company;

(d) Default on Indebtedness or Other Security-- failure by the Company or any Subsidiary to make one or more payments due on aggregate indebtedness exceeding $1,000,000; or any event, other than the giving of a notice of voluntary prepayment, shall occur or any condition shall exist, the effect of which event or condition is to cause (or permit one or more Persons to cause) more than $1,000,000 of aggregate indebtedness or other Securities of the Company or any Subsidiary to become due before its (or their) stated maturity or before its (or their) regularly scheduled dates of payment;

(e) Involuntary Bankruptcy Proceedings, Etc.--a custodian, receiver, liquidator or trustee of the Company or any Subsidiary, or of any of the Property of either, is appointed or takes possession and such appointment or possession remains in effect for more than 60 days; or the Company or any Subsidiary generally fails to pay its debts as they become due; or the Company or any Subsidiary is adjudicated bankrupt or insolvent; or an order for relief is entered under the Federal Bankruptcy Code against the Company or any Subsidiary; or any of the Property of either is sequestered by court order and the order remains in effect for more than 60 days; or a petition is filed against the Company or any Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or subsequently in effect, and is not dismissed within 60 days after filing;

(f) Voluntary Bankruptcy Proceedings, Etc.--the Company or any Subsidiary files a voluntary petition in bankruptcy or seeking relief under any provision of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or subsequently in effect; or consents to the filing of any petition against it under any such law; or consents to the appointment of or taking possession by a custodian, receiver, trustee or liquidator of the Company, or a Subsidiary, or of all or any part of the Property of either; or makes an assignment for the benefit of its creditors;

(g) Warranties or Representations--any warranty, representation or other statement by or on behalf of the Company contained in this Agreement or in any document, certificate or instrument furnished in compliance with or in reference to this Agreement shall prove to have been false or misleading in any material respect on the date as of which it was made; or

(h) Undischarged Final Judgments--a final judgment for the payment of money is outstanding against one or more of the Company and its Subsidiaries and has been outstanding

for more than 60 days from the date of its entry and has not been discharged in full or effectively stayed.

Section 5.2 Default Remedies.

(a) Acceleration--If an Event of Default of the type described in Sections 5.1(e) or 5.1(f) shall occur, the, entire outstanding principal amount of the Notes shall automatically become due and payable, without the taking of any action on the part of any holder of the Notes or any other Person and without the giving of any notice with respect thereto. If an Event of Default of the type described in Section 5.1(a) exists, any holder of Notes may, at its option, exercise any right, power or remedy permitted by law, including the right, by notice to the Company, to declare the Notes held by such holder to be immediately due and payable. If any other Event of Default exists, the holder or holders of at least 66-2/3% in outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries and Affiliates) may, at its or their option, exercise any right, power or remedy permitted by law, including the right, by notice to the Company, to declare all the outstanding Notes to be immediately due and payable. Upon each such acceleration, the principal of the Notes declared due or automatically becoming due shall be immediately payable, together with all accrued interest and the Make Whole Amount, if any, applicable thereto, and the Company will immediately make payment, without any presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived.

No course of dealing or delay or failure to exercise any right on the part of any holder of the Notes shall operate as a waiver of such right or otherwise prejudice such holder's rights, powers or remedies. The Company will pay or reimburse the holders of the Notes for all costs and expenses (including reasonable attorneys' fees) incurred by them in collecting any sums due on the Notes or in otherwise enforcing any of their rights.

(b) Annulment of Acceleration--In the event of each declaration or automatic acceleration pursuant to Section 5.2(a), the holder or holders of at least 75% of the outstanding principal amount of the Notes (exclusive of Notes owned by the Company, Subsidiaries and Affiliates) may annul such declaration or automatic acceleration and its consequences if no judgment or decree has been entered for the payment of any amount due pursuant to such declaration or automatic acceleration and if all sums payable under the Notes and under this Agreement (except any principal or interest on the Notes which has become payable solely by reason of such declaration or automatic acceleration) shall have been duly paid.

Section 5.3 Other Remedies.

If any Event of Default or Default shall occur and be continuing, the holder of any Note may proceed to protect and enforce its rights under this Agreement and such Note by exercising such remedies as are available to such holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon any Purchaser or any other holder of any Note is intended to be exclusive of any other remedy, and each and every such remedy

shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise.

SECTION 6. REPRESENTATIONS, COVENANTS AND WARRANTIES

The Company represents, covenants and warrants as follows:

Section 6.1 Organization, Etc.

(a) Due Organization, Foreign Qualifications, Stock Ownership. The Company is a corporation duly organized and existing in good standing under the laws of the State of Delaware, and is qualified to do business and is in good standing in the States of Florida and Maryland, which are the only jurisdictions where the ownership by it of property or the nature of the business conducted by it makes such qualification necessary. Each Subsidiary of the Company is duly organized and existing in good standing under the laws of the jurisdictions in which it is incorporated. Neither the ownership by any Subsidiary of property or the nature of the business conducted by any Subsidiary requires any Subsidiary to be qualified to do business in any jurisdiction in which it is not already qualified to do business. The names of the Subsidiaries of the Company and the jurisdiction of incorporation of such (i) as of the date of this Agreement are listed on Schedule 6.1(a) hereto, and (ii) as of the date upon when this representation is repeated as provided in Section 1.4(d), as such Schedule may have been updated by the delivery by the Company to the Purchasers of an updated version thereof on or before such date.

(b) Power and Authority. The Company and each of its Subsidiaries has all requisite corporate power to conduct their respective businesses as currently conducted and as currently proposed to be conducted. The Company has all requisite corporate power to execute, deliver and perform its obligations under this Agreement and the Notes. The execution, delivery and performance of the obligations of the Company under this Agreement and the Notes have been duly authorized by all requisite corporate action on the part of the Company. The Company has duly executed and delivered this Agreement, and this Agreement constitutes the legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principles of equity. As of the Closing Date, the Company shall have duly executed and delivered the Notes being issued on such Closing Date, and such Notes shall be the legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms subject, as to enforceability, to applicable laws relating to bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditor's rights generally and subject to general principles of equity.

Section 6.2 Financial Statements.

The Company has furnished each Purchaser with the following financial statements, identified by a principal financial officer of the Company: (i) a consolidated balance sheet of the Company and its Subsidiaries as at December 31 in each of the years 2002 through 2007 and consolidated statements of income, stockholders' equity and cash flows of the Company and its

Subsidiaries for each such year, accompanied by the opinion thereon of PricewaterhouseCoopers, L.L.P. for the years 2002 through 2006, and Beard Miller Company LLP for the year 2007 (or, in the case of financial statements delivered subsequent to the date of this Agreement, accompanied by the opinion thereon of a registered public accounting firm of national standing); and (ii) a consolidated balance sheet of the Company and its Subsidiaries as at the end of each quarterly period ended after December 30, 2007 and prior to the date this representation is made or repeated as provided in Section 1.4(d) (other than quarterly periods completed within 45 days prior to such date for which financial statements have not been released) and consolidated statements of income, stockholders' equity and cash flows for the year-to-date periods ended on each such date, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with generally accepted accounting principles consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of income, stockholders' equity and cash flows fairly present the results of the operations of the Company and its Subsidiaries and their cash flows for the periods indicated. There has been no material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole since December 31, 2007.

Section 6.3 Actions Pending.

Except as disclosed in the Company's Form 10-K most recently filed with the Securities and Exchange Commission before the date of this Agreement or subsequent Forms 10-Q or Forms 8-K filed with the Securities and Exchange Commission before the date of this Agreement, there is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body not covered by insurance which could reasonably be expected to result in any material adverse change in the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

Section 6.4 Outstanding Indebtedness.

Neither the Company nor any of its Subsidiaries has outstanding any Indebtedness except as not prohibited by Section 4.6. There does not exist any default under the provisions of any instrument evidencing such Indebtedness or of any agreement relating thereto.

Section 6.5 Title to Properties.

The Company has and each of its Subsidiaries has good and marketable title to its respective real properties (other than properties which it leases) and good title to all of its other respective properties and assets, including the properties and assets reflected in the balance sheet as of December 31, 2007 referred to in Section 6.2 (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens permitted by

Section 4.8. All leases necessary in any material respect for the conduct of the respective businesses of the Company and its Subsidiaries are valid and subsisting and are in full force and effect.

Section 6.6 Taxes.

The Company has and each of its Subsidiaries has filed all federal, state and other income tax returns which, to the knowledge of the officers of the Company, are required to be filed, and each has paid all taxes as shown on such returns and on all assessments received by it to the extent that such taxes have become due, except such taxes as are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles.

Section 6.7 Conflicting Agreements and Other Matters.

Neither the execution nor delivery of this Agreement or the Notes, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the Notes will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries pursuant to, the charter or by-laws of the Company or any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with stockholders), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any of its Subsidiaries is a party to, or otherwise subject to any provision contained in, any instrument evidencing Indebtedness of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement (including its charter) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt of the Company of the type to be evidenced by the Notes except as set forth in the agreements listed in Schedule 6.7 attached hereto.

Section 6.8 Offering of Notes.

Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

Section 6.9 ERISA.

No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Pension Plan (other than a Multiemployer Plan). No liability to the Pension Benefit Guaranty Corporation has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Pension Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, condition (financial or otherwise) or

operations of the Company and its Subsidiaries taken as a whole. Neither the Company, any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from, or will not involve any transaction which is subject to, the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of each Purchaser's representation in Section 9.5.

Section 6.10 Governmental Consent.

Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or other action by or notice to or filing with any court or administrative or governmental body, including, without limitation, the Maryland State Commission, (other than routine filings after the date of closing with the Securities and Exchange Commission and/or state Blue Sky authorities, if any) in connection with the execution and delivery of this Agreement, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the Notes, other than (a) (i) Order No. 7065 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 06-339 dated October 31, 2006 and (ii) Order No. PSC-07-0952-FOF-GU of the Florida Public Service Commission entered in Docket No. 070640-GU, dated November 29, 2007, which orders have been duly issued, are final and in full force and effect, no appeal, review or contest thereof is pending and the time for appeal or to seek review or reconsideration thereof has expired and (b) Order No. 7464 of the Public Service Commission of the State of Delaware entered in PSC Docket No. 08-305 dated October 23, 2008, which order has been duly issued, is in full force and effect and no appeal, review or contest thereof is pending. The Company has delivered to each Purchaser true and complete copies of such orders of the Public Service Commission of the State of Delaware and such order of the Florida Public Service Commission.

Section 6.11 Environmental Compliance.

Except as disclosed in the Company's Form 10-K most recently filed with the Securities and Exchange Commission before the date of this Agreement or subsequent Forms 10-Q or Forms 8-K filed with the Securities and Exchange Commission before the date of this Agreement, the Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations relating to protection of the environment except, in any such case, where failure to comply would not reasonably be expected to result in a material adverse effect on the business, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole.

Section 6.12 Permits and Other Operating Rights.

The Company and each of its Subsidiaries has all such valid and sufficient franchises, licenses, permits, operating rights, certificates of convenience and necessity, other authorizations from federal, state, regional, municipal and other local regulatory bodies or administrative agencies or other governmental bodies having jurisdiction over the Company or any of its Subsidiaries or any of its respective properties, easements and rights-of-way as are necessary for the ownership, operation and maintenance of its respective businesses and respective properties, subject to minor exceptions and deficiencies which do not materially affect its business and operations considered as a whole or any material part thereof, and neither the Company nor any of its Subsidiaries is in violation of any thereof in any material respect.

Section 6.13 Disclosure.

Neither this Agreement nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may (so far as the Company can now foresee) materially adversely affect the business, property or assets, or financial condition of the Company or any of its Subsidiaries taken as a whole and which has not been set forth in this Agreement or in the other documents, certificates and statements furnished to each Purchaser by or on behalf of the Company prior to the date hereof in connection with the transactions contemplated hereby.

Section 6.14 Regulatory Status of Company; Trust Indenture Act.

The Company is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended. The Company is not a "holding company" or a "subsidiary company" or an "affiliate" of a "holding company" within the meaning of the Energy Policy Act of 2005, and is not a "public utility" within the meaning of the Federal Power Act, as amended. By purchasing the Notes, no Purchaser will be (a) a "public utility company," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Energy Policy Act of 2005, (b) a "transmitting utility" or an "electric utility" within the meaning of the Federal Power Act, as amended, (c) a "public utility" or an "electric utility" under Delaware law, Florida law, Maryland law or the law of any other state or (d) subject to the jurisdiction of the Federal Energy Regulatory Commission, the Public Service Commission of the State of Delaware, the Public Service Commission of the State of Florida or any other commission or person in any other state.

Section 6.15. Foreign Assets Control Regulations, Etc.

(a) The use of the proceeds of the sale of the Notes by the Company hereunder will not violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

(b) Neither the Company nor any Subsidiary (i) is a Person described or designated in the Specially Designated Nationals and Blocked Persons List of the Office of Foreign Assets Control or in Section 1 of the Anti-Terrorism Order or (ii) to its knowledge, engages in any dealings or transactions with any such Person. The Company and its Subsidiaries are in compliance, in all material respects, with the USA Patriot Act.

(c) No part of the proceeds from the sale of the Notes hereunder will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

Section 6.16. First Mortgage Indenture.

No Bonds are outstanding. The First Mortgage Indenture has been terminated and discharged and no further Bonds may be issued thereunder.

SECTION 7. INTERPRETATION OF THIS AGREEMENT

Section 7.1 Terms Defined.

As used in this Agreement (including Exhibits and Schedules), the following terms have the respective meanings set forth below or in the Section indicated. Unless the context otherwise requires, (a) words denoting the singular number only shall include the plural and vice versa and (b) references to a gender shall include all genders.

Affiliate--means a Person (other than a Subsidiary) (1) which directly or indirectly controls, or is controlled by, or is under common control with, the Company, (2) which owns 5% or more of the Voting Stock of the Company or (3) 5% or more of the Voting Stock (or in the case of a Person which is not a corporation, 5% or more of the equity interest) of which is owned by the Company or a Subsidiary. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of Voting Stock, by contract or otherwise.

Agreement--means this Note Agreement dated as of October 31, 2008 between the Company and each Purchaser (including Exhibits and Schedules), as amended or modified from time to time.

Anti-Terrorism Order--means Executive Order No. 13,224 of September 24, 2001, Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism, 66 U.S. Fed. Reg. 49, 079 (2001), as amended.

Bonds--has the meaning that was specified in the First Mortgage Indenture.

Business Day--means any day other than a Saturday, a Sunday or a day on which commercial banks in New York City are required or authorized to be closed.

Called Principal--means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 2.2(a) or is declared to be due and payable pursuant to Section 2.1(b) or 5.2(a), as the context requires.

Closing Date--Section 1.2.

Code--means the Internal Revenue Code of 1986, as amended.

Confidential Information--means information delivered to any Purchaser by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by such Purchaser as being confidential information of the Company or such Subsidiary, provided that such term does not include information that (a) was publicly known or otherwise known to such Purchaser prior to the time of such disclosure, (b) subsequently becomes publicly known through no act or omission by such Purchaser or any person acting on such Purchaser's behalf, (c) otherwise becomes known to such Purchaser other than through disclosure by the Company or any Subsidiary or (d) constitutes financial statements delivered to such Purchaser under Section 3.1 that are otherwise publicly available.

Company--Preamble.

Consolidated Fixed Charges--for any period, means the net amount deducted, in determining Consolidated Net Income for such period, for interest on Indebtedness and lease rental expense of the Company and its Subsidiaries.

Consolidated Net Earnings Available for Fixed Charges--for any period, means Consolidated Net Income for such period plus the net amount deducted in the determination thereof for (i) interest on Indebtedness, (ii) lease rental expense and (iii) income taxes.

Consolidated Net Income--for any period, means the gross revenue of the Company and its Subsidiaries determined on a consolidated basis minus all proper expenses (including income taxes) determined on a consolidated basis for such period, but in any event excluding:

(1) any gain or loss on the sale of Investments or fixed assets, and any taxes on such excluded gain or loss;

(2) any proceeds from life insurance;

(3) any portion of the net earnings of any Subsidiary which for any reason is unavailable to pay dividends to the Company or any other Subsidiary;

(4) any gain arising from any write-up or reappraisal of assets;

(5) any deferred or other credit representing the excess of equity of an acquired Person over the amount invested by the Company and its Subsidiaries in such Person;

(6) any gain arising from the acquisition of any Securities of the Company or any Subsidiary;

(7) net earnings of any Person (other than a Subsidiary) in which the Company or any Subsidiary has an ownership interest unless those net earnings have actually been received by the Company or the Subsidiary in the form of cash distributions or, to the extent of their fair market value, in the form of any other freely transferable Property; and

(8) earnings of any Person accrued prior to the date it becomes a Subsidiary or its assets are acquired by the Company or a Subsidiary.

Consolidated Net Worth--means as of any date, the sum of the amounts that would be shown on a consolidated balance sheet of the Company and its Subsidiaries at such date for (i) capital stock, (ii) capital surplus and (iii) retained earnings.

Consolidated Tangible Net Worth--means as of any date Consolidated Net Worth at such date minus the amount at which any assets other than Tangible Assets would be shown on a consolidated balance sheet of the Company and its Subsidiaries at such date.

Consolidated Total Assets--means as of any date the aggregate amount at which the assets of the Company and its Subsidiaries would be shown on a consolidated balance sheet at such date.

Current Indebtedness--with respect to any Person, means all liabilities for borrowed money and all liabilities secured by any Lien existing on Property owned by that Person (whether or not those liabilities have been assumed) which, in either case, are payable on demand or within one year from their creation, plus the aggregate amount of Guaranties by that Person of all such liabilities of other Persons, except:

(1) any liabilities which are renewable or extendible at the option of the debtor to a date more than one year from the date of creation thereof; and

(2) any liabilities which, although payable within one year, constitute principal payments on indebtedness expressed to mature more than one year from the date of its creation.

Default--means an event or condition which will, with the lapse of time or the giving of notice or both, become an Event of Default.

Defined Benefit Plan--means a plan (within the meaning of section 4001(a)(15) of ERISA) that is covered by Title IV of ERISA.

Discounted Value-- means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the

same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

Diversification Event--Section 2.1(b).

Energy Policy Act of 2005--means the Energy Policy Act of 2005.

ERISA--means the Employee Retirement Income Security Act of 1974, as amended.

ERISA Affiliate-- shall mean any corporation which is a member of the same controlled group of corporations as the Company within the meaning of section 414(b) of the Code, or any trade or business which is under common control with the Company within the meaning of section 414(b) of the Code.

Event of Default--Section 5.1.

Exchange Act--means the Securities Exchange Act of 1934, as amended.

Excluded Assets-- means (i) each of the following Subsidiaries or the assets of any of the following Subsidiaries: Sharp Water, Inc.; BravePoint, Inc.; Skipjack, Inc.; Eastern Shore Real Estate, Inc.; aQuality Company, Inc.; Peninsula Pipeline Company, Inc.; Peninsula Energy Services Company, Inc.; and Chesapeake OnSight Services, LLC and (ii) any Subsidiary that the Company may create or acquire after the date hereof which is not (x) a "public utility company," a "holding company" or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company" within the meaning of the Energy Policy Act of 2005 or (y) a "transmitting utility" within the meaning of the Federal Power Act, as amended.

FERC--means the Federal Energy Regulatory Commission or a successor thereto.

Financing Lease--means any lease which is shown or is required to be shown in accordance with generally accepted accounting principles as a liability on a balance sheet of the lessee thereunder.

Financing Lease Obligation--means the obligation of the lessee under a Financing Lease. The amount of a Financing Lease Obligation at any date is the amount at which the lessee's liability under the Lease would be required to be shown on its balance sheet at such date.

First Mortgage Indenture--means the Indenture formerly in effect dated as of December 1, 1959, between Chesapeake Utilities Corporation and Fidelity-Baltimore National Bank, Trustee, as amended and supplemented.

Funded Indebtedness--with respect to any Person, means without duplication:

(1) its liabilities for borrowed money, other than Current Indebtedness;

(2) liabilities secured by any Lien existing on Property owned by the Person (whether or not those liabilities have been assumed);

(3) the aggregate amount of Guaranties by the Person, other than Guaranties which constitute Current Indebtedness; and

(4) its Financing Lease Obligations.

Guaranty--with respect to any Person, means all guaranties of, and all other obligations which in effect guaranty, any indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner (except any indebtedness or other obligation of any Subsidiary or any Funded Indebtedness of the Company), including obligations incurred through an agreement, contingent or otherwise, by such Person:

(1) to purchase such indebtedness or obligation or any Property constituting security therefor;

(2) to advance or supply funds

(A) for the purchase or payment of such indebtedness or obligation, or

(B) to maintain working capital or any balance sheet or income statement condition;

(C) to lease Property, or to purchase Securities or other Property or services, primarily for the purpose of assuring the owner of such indebtedness or obligation of the ability of the primary obligor to make payment of the indebtedness or obligation; or

(D) otherwise to assure the owner of such indebtedness or obligation, or the primary obligor, against loss;

but excluding endorsements in the ordinary course of business of negotiable instruments for deposit or collection.

The amount of any Guaranty shall be deemed to be the maximum amount for which such Person may be liable, upon the occurrence of any contingency or otherwise, under or by virtue of the Guaranty.

Indebtedness--means Current Indebtedness and Funded Indebtedness.

Institutional Holder--means a "qualified institutional buyer" as defined in Regulation 230.144A issued pursuant to the Securities Act of 1933, as amended.

Investments--Section 4.13.

Lien--means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether the interest is based on common law, statute or contract (including the security interest lien arising from a mortgage, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes). The term "Lien" shall not include minor reservations, exceptions, encroachments,

easements, rights-of-way, covenants, conditions, restrictions and other minor title exceptions affecting Property, provided that they do not constitute security for a monetary obligation. For the purposes of this Agreement, the Company or a Subsidiary shall be deemed to be the owner of any Property which it has acquired or holds subject to a Financing Lease or a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes, and such retention or vesting shall be deemed to be a Lien.

Make Whole Amount-- means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, *provided* that the Make-Whole Amount may in no event be less than zero.

Notes--Section 1.1.

Pension Plan--means any "employee pension benefit plan" (as such term is defined in Section 3 of ERISA) maintained by the Company and its Related Persons, or in which employees of the Company or any Related Person are entitled to participate, as from time to time in effect.

Permitted Investments--means:

(1) Investments in any Person outstanding on the date hereof, which are set forth in Schedule 7.1 hereto;

(2) Investments in any Person which is or would immediately thereafter become a Subsidiary or a division of the Company or a Subsidiary, whether by acquisition of stock, indebtedness, other obligation or Security, or by loan, Guaranty, advance, capital contribution, or otherwise;

(3) Investments in cash equivalent short-term investments maturing within one year of acquisition;

(4) Investments in mutual funds which invest only in either money market securities or direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, which mature within three years from the date acquired;

(5) Investments in related industries;

(6) Direct obligations of the United States of America or any of its agencies, or obligations fully guaranteed by the United States of America, provided that such obligations mature within one year from the date acquired;

(7) Negotiable certificates of deposit maturing within one year from the date acquired and issued by a bank or trust company organized under the laws of the United States or any of its states, and having capital, surplus and undivided profits aggregating at least $100,000,000;

(8) commercial paper rated A-1 or better by Standard & Poor's Corporation on the date of acquisition and maturing not more than 270 days from the date of creation thereof; and

(9) other investments in an aggregate amount not in excess of 20% of Consolidated Net Worth at any one time.

Person--means an individual, partnership, corporation, limited liability company, trust or unincorporated organization, and a government or a governmental agency or political subdivision.

Prepayment Date--Section 2.2(b).

Process Agent--Section 7.4.

Property--means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

PTE--Section 9.5.

Purchaser--Preamble.

Purchase Money Indebtedness--means Indebtedness of the Company which is secured by a Lien on Property of the Company which either existed at the time of the original acquisition of the Property by the Company or was granted or retained in connection with the acquisition or improvement of the Property by the Company in order to facilitate the financing of such acquisition or improvement.

Reinvestment Yield-- means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page PX1" (or such other display as may replace Page PX1) on Bloomberg Financial Markets for the most recently issued actively traded on the run U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (ii) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable (including by way of interpolation), the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date.

In the case of each determination under clause (i) or clause (ii), as the case may be, of the preceding paragraph, such implied yield will be determined, if necessary, by (a) converting actively traded U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between (1) the applicable actively traded U.S. Treasury security with the maturity closest to and greater than such Remaining Average Life and (2) the applicable actively traded U.S. Treasury security with the maturity

closest to and less than such Remaining Average Life. The Reinvestment Yield shall be rounded to the number of decimal places as appears in the interest rate of the applicable Note.

Related Person--means any Person (whether or not incorporated) which is under common control with the Company within the meaning of section 414(c) of the Internal Revenue Code of 1986, as amended, or of section 4001(b) of ERISA.

Remaining Average Life--means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (b) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

Remaining Scheduled Payments--means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 2.2(a) or Section 5.2(a).

Required Payment Date--Section 2.1(b).

Restricted Payments--Section 4.9.

Security--shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

Settlement Date--means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 2.2(a) or has become or is declared to be immediately due and payable pursuant to Section 2.1(b) or 5.2(a), as the context requires.

Source--Section 9.5.

State Commissions--means the Delaware, Florida and Maryland public utilities commissions or other bodies which regulate the rates of the Company or its Subsidiaries as a natural gas distribution company or otherwise.

Subsidiary--means any corporation organized under the laws of any State of the United States of America, which conducts the major portion of its business in and makes the major portion of its sales to Persons located in the United States of America, and not less than 80% of the total combined voting power of all classes of Voting Stock, and 80% of all other equity securities, of which shall, at the time as of which any determination is being made, be owned by the Company either directly or through Subsidiaries.

Subsidiary Stock--Section 4.10.

Tangible Assets--means all assets except:

(1) deferred assets, other than prepaid insurance and prepaid taxes;

(2) patents, copyrights, trademarks, trade names, franchises, good will, experimental expense and other similar intangibles;

(3) treasury stock;

(4) unamortized debt discount and expense; and

(5) assets located and notes and receivables due from obligors domiciled outside the United States of America or Canada.

Total Capitalization--means at any date, the aggregate amount at that date, as determined on a consolidated basis, of the Funded Indebtedness of the Company and its Subsidiaries, plus Consolidated Net Worth.

USA Patriot Act--means United States Public Law 107-56, Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT ACT) Act of 2001, as amended from time to time, and the rules and regulations promulgated thereunder from time to time in effect.

Voting Stock--means Securities, the holders of which are ordinarily, in the absence of contingencies, entitled to elect the corporate directors (or Persons performing similar functions).

Wholly-Owned Subsidiary--means any Subsidiary whose financial results are consolidated with the financial results of the Company, and all of the equity Securities of which (except director's qualifying shares) are owned by the Company and/or one or more Wholly-Owned Subsidiaries of the Company.

Section 7.2 Accounting Principles.

The character or amount of any asset or liability or item of income or expense required to be determined under this Agreement and each consolidation or other accounting computation required to be made under this Agreement, shall be determined or made in accordance with generally accepted accounting principles at the time in effect, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

Section 7.3 Directly or Indirectly.

Where any provision in this Agreement refers to any action which any Person is prohibited from taking, the provision shall be applicable whether the action is taken directly or indirectly by such Person, including actions taken by, or on behalf of, any partnership in which such Person is a general partner and all liabilities of such partnerships shall be considered liabilities of such Person under this Agreement.

Section 7.4 Governing Law; Consent to Jurisdiction.

This Agreement shall be construed and enforced in accordance with, and the rights of the parties shall be governed by, the law of the State of New York. The Company irrevocably agrees that any legal action or proceeding with respect to this Agreement or the Notes may be brought in the courts of the State of New York or any court of the United States of America located in the State of New York, and, by execution and delivery of this Agreement, the Company accepts for itself, generally and unconditionally, and agrees to submit to the jurisdiction of each of the above-mentioned courts and irrevocably waives, to the fullest extent permitted by law, any objection which it may now or later have based on venue or *forum non conveniens* with respect to any action instituted therein. The Company hereby irrevocably appoints Corporation Service Company (the "Process Agent"), with an office on the date hereof at 80 State Street, 6th Floor, Albany, New York 12207-2543, United States, as its agent to receive, on the Company's behalf and on behalf of the Company's property, service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made by mailing or delivering a copy of such process to the Company in care of the Process Agent at the Process Agent's above address, and the Company hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf.

SECTION 8. PURCHASERS' SPECIAL RIGHTS

Section 8.1 Note Payment.

The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on and any Make Whole Amount payable with respect to such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City time, on the date due) to the account or accounts as specified in the Purchaser Schedule attached hereto or such other account or accounts in the United States as any Purchaser may designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, such Purchaser will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 8.1 to any transferee of any Note which shall have made the same agreement as made in this paragraph 8.1.

Section 8.2 Issue Taxes.

The Company will pay all issuance, stamp and similar taxes in connection with the issuance and sale of the Notes to the Purchasers and in connection with any modification of the Notes and will save each Purchaser harmless against any and all liabilities relating to such taxes. The obligations of the Company under this Section 8.2 shall survive the payment of the Notes and the termination of this Agreement.

Section 8.3 Registration of Notes.

The Company will cause to be kept a register for the registration and transfer of the Notes. The names and addresses of the holders of the Notes, and all transfers of and the names

and addresses of the transferees of any of the Notes, will be registered in the register. The Person in whose name any Note is registered shall be deemed and treated as the owner thereof for all purposes of this Agreement, and the Company shall not be affected by any notice or knowledge to the contrary.

Section 8.4 Exchange of Notes.

Upon surrender of any Note to the Company, the Company, upon request, will execute and deliver at its expense (except as provided below), new Notes, in denominations of at least $1,000,000 (or, if less, the outstanding principal amount of the surrendered Note), in an aggregate principal amount equal to the outstanding principal amount of the surrendered Note. Each new Note (a) shall be payable to any Person as the surrendering holder may request and (b) shall be dated and bear interest from the date to which interest has been paid on the surrendered Note or dated the date of the surrendered Note if no interest has been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any transfer.

Section 8.5 Replacement of Notes.

Upon receipt by the Company of evidence reasonably satisfactory to it (provided that if the holder of the Note is an Institutional Holder, its own certification shall be deemed to be satisfactory evidence) of the ownership of and the loss, theft, destruction or mutilation of any Note and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of the Note is an Institutional Holder, its own agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation of the Note,

the Company at its expense will execute and deliver a new Note, dated and bearing interest from the date to which interest has been paid on the lost, stolen, destroyed or mutilated Note or dated the date of the lost, stolen, destroyed or mutilated Note if no interest has been paid thereon.

SECTION 9. MISCELLANEOUS

Section 9.1 Notices.

(a) All notices, requests, demands or other communications under this Agreement or under the Notes will be in writing and will be given by telecopy, telex, first class registered or certified mail (postage prepaid) or personal delivery:

(i) if to any Purchaser or any holder of any Note, in the manner provided in the Purchaser Schedule or in any other manner as such Purchaser or such holder may have most recently advised the Company in writing, or

(ii) if to the Company, at its address shown at the beginning of this Agreement, or at any other address as it may have most recently furnished in writing to each Purchaser and to all other holders of the Notes.

(b) Notice shall be deemed to be given upon the receipt thereof at the notice address specified.

Section 9.2 Payments Due on Non-Business Days.

Anything in this Agreement or the Note to the contrary notwithstanding, any payment of principal of or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day.

Section 9.3 Reproduction of Documents.

This Agreement and all related documents, including (a) consents, waivers and modifications which may subsequently be executed, (b) documents received by each Purchaser at the closing of each Purchaser's purchase of the Notes (except the Notes themselves), and (c) financial statements, certificates and other information previously or subsequently furnished to any Purchaser, may be reproduced by any Purchaser by any photographic, photostatic, microfilm, micro-card, miniature photographic or other similar process and any Purchaser may destroy any original document so reproduced. The Company agrees and stipulates that any such reproduction shall, to the extent permitted by applicable law, be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not the reproduction was made by any Purchaser in the regular course of business) and that any enlargement, facsimile or further reproduction of the reproduction shall likewise be admissible in evidence.

Section 9.4 Purchase for Investment.

Each Purchaser represents to the Company that such Purchaser (i) is a "qualified institutional buyer" as defined by Rule 144A and (ii) is purchasing the Notes for its own account for investment or for resale under Rule 144A under the Securities Act of 1933, as amended, and with no present intention of distributing or reselling any of the Notes, but without prejudice to such Purchaser's right at all times to sell or otherwise dispose of all or part of the Notes under an effective registration statement under the Securities Act of 1933, as amended, or under a registration exemption available under that Act.

Section 9.5 Source of Funds.

Each Purchaser severally represents that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(a) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("PTE") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "NAIC

Annual Statement")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(b) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the "QPAM Exemption")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (d); or

(e) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the "INHAM Exemption")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM Exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(d) of the INHAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such INHAM and (ii) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (e); or

(f) the Source is a governmental plan; or

(g) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (g); or

(h) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 9.5, the terms "employee benefit plan," "governmental plan," and "separate account" shall have the respective meanings assigned to such terms in section 3 of ERISA.

Section 9.6 Successors and Assigns.

This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties except that each Purchaser's obligations to purchase the Notes (as provided in Section 1.2) shall be a right which is personal to the Company and such right shall not be transferable or assignable by the Company to any other Person (including successors at law) whether voluntarily or involuntarily. The provisions of this Agreement are intended to be for the benefit of all holders, from time to time, of the Notes, and shall be enforceable by any holder, whether or not an express assignment of rights under this Agreement has been made by any Purchaser or any Purchaser's successor or assign.

Section 9.7 Amendment and Waiver; Acquisition of Notes.

(a) Amendment and Waiver. This Agreement may be amended, and the observance of any term of this Agreement may be waived, with (and only with) the written consent of the Company and the holders of at least 66-2/3% of the outstanding principal amount of the Notes (exclusive of Notes then owned by the Company, Subsidiaries and Affiliates), provided that no amendment or waiver of any of the provisions of Sections 1, 6 and 8 shall be effective as to any holder of the Notes unless consented to by such holder in writing, and provided further, that no amendment or waiver shall, without the written consent of the holders of all the outstanding Notes, (1) subject to Section 5.2(b), change the amount or time of any prepayment, payment of principal or premium or the rate or time of payment of interest, (2) amend Section 5, or (3) amend this Section 9.7(a). Executed or complete and correct copies of any amendment or waiver effected pursuant to the provisions of this Section 9.7(a) shall be delivered by the Company to each holder of outstanding Notes promptly following the date on which the same shall become effective.

(b) Acquisition of Notes. The Company will not, and will cause each Subsidiary and, insofar as it is within its power to do so, each Affiliate not to, directly or indirectly, acquire or make any offer to acquire any Notes unless the Company or such Subsidiary or Affiliate shall contemporaneously offer to acquire Notes, pro rata, from all holders of the Notes and upon the same terms. Any Notes acquired by the Company, any Subsidiary or any Affiliate shall not be considered outstanding for any purpose under this Agreement.

Section 9.8 Duplicate Originals.

Two or more duplicate originals of this Agreement may be signed by the parties, each of which shall be an original but all of which together shall constitute one and the same instrument.

Section 9.9 Confidential Information.

Each Purchaser shall maintain the confidentiality of such Confidential Information in accordance with procedures adopted by such Purchaser in good faith to protect confidential information of third parties delivered to such Purchaser, provided that such Purchaser may deliver or disclose Confidential Information to (a) its directors, officers, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by its Notes), (b) its financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 9.9, (c) any other holder of any Note, (d) any Institutional Holder to which it sells or offers to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 9.9), (e) any Person from which it offers to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 9.9), (f) any federal or state regulatory authority having jurisdiction over such Purchaser, (g) the National Association of Insurance Commissioners or the Securities Valuation Office of the National Association of Insurance Commissioners (or any successor to such Office) or, in each case, any similar organization, or any nationally recognized rating agency that requires access to information about such Purchaser's investment portfolio, or (h) any other Person to which such delivery or disclosure may be necessary or appropriate (w) to effect compliance with any law, rule, regulation or order applicable to such Purchaser, (x) in response to any subpoena or other legal process, (y) in connection with any litigation to which such Purchaser is a party or (z) if an Event of Default has occurred and is continuing, to the extent such Purchaser may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under such Purchaser's Notes and this Agreement. Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 9.9 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 9.9.

[Signatures Follow]

If this Agreement is satisfactory to each Purchaser, please so indicate by signing the acceptance at the foot of a counterpart of this Agreement and return a counterpart to the Company, whereupon this Agreement will become binding between us in accordance with its terms.

Very truly yours,

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper
Name: Beth W. Cooper
Title: Senior Vice President and Chief Financial Officer

Accepted:

GENERAL AMERICAN LIFE INSURANCE COMPANY
by Metropolitan Life Insurance Company, its Investment Manager

NEW ENGLAND LIFE INSURANCE COMPANY
by Metropolitan Life Insurance Company, its Investment Manager

By: _____
Name: C. Scott Inglis
Title: Managing Director

(executed by Metropolitan Life Insurance Company, as investment manager to General American Life Insurance Company as a Purchaser and New England Life Insurance Company as a Purchaser)

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF COMPANY STOCK	))))	**P.S.C. DOCKET NO. 09-**

Chesapeake Utilities Corporation (hereinafter sometimes called "Chesapeake" or "Applicant") pursuant to 26 Del. C. section 215, makes the following application for approval by the Delaware Public Service Commission ("Commission") of the issuance of up to 2.6 million shares of Chesapeake common stock. In support of this Application, Chesapeake states the following:

1. Chesapeake is a Delaware public utility with its principal place of business at 909 Silver Lake Boulevard, Dover, Delaware 19904. All communications should be addressed to Applicant at the following address: Attention: Jennifer A. Clausius, Manager of Pricing and Regulation, 350 South Queen Street, P.O. Box 1769, Dover, Delaware 19904 or at the following e-mail address: jclausius@chpk.com. The respective telephone number and facsimile number are 302.736.7818 and 302.734.6011.

2. Counsel for the Applicant is William A. Denman, Esquire, Parkowski, Guerke & Swayze P.A., 116 West Water Street, P.O. Box 598, Dover, Delaware 19903-0598. Correspondence and other communications concerning this Application should be directed to counsel at the foregoing address, or at the

following e-mail address: wdenman@pgslegal.com. The respective telephone number and facsimile number are 302.678.3262 and 302.678.9415.

3. Chesapeake is a corporation incorporated under the laws of the State of Delaware. The voting stock of Chesapeake is publicly owned. Shares of common stock, 6,827,121 of which were outstanding as of December 31, 2008, are the only voting securities of Chesapeake. Each share is entitled to one vote.

4. Chesapeake's Board of Directors has approved the issuance of up to 2.6 million shares of Chesapeake common stock. The common stock will be issued in exchange for all of the outstanding shares of Florida Public Utilities Company common stock as a result of a definitive merger agreement pursuant to which Florida Public Utilities Company will merge with a wholly owned subsidiary of Chesapeake. Florida Public Utilities Company will survive as a wholly owned subsidiary of Chesapeake. Under the merger agreement, holders of Florida Public Utilities common stock will receive 0.405 shares of Chesapeake common stock in exchange for each outstanding share of Florida Public Utilities. The Company anticipates a closing of the transaction during the fourth quarter of 2009. The decision to use Chesapeake common stock to acquire Florida Public Utilities was based on the Company's good faith belief that the use of common stock, as opposed to the issuance of debt, was the most economical alternative.

5. Chesapeake Utilities Corporation will not be issuing any additional long-term debt in conjunction with this transaction. The existing Florida Public Utilities Company long-term debt will remain with the newly-formed wholly owned subsidiary of Chesapeake. The short-term debt of Florida Public Utilities Company

existing at the closing date is expected to be repaid and replaced with borrowings under Chesapeake's existing short-term lines of credit.

6. A copy of the Form 8-K Filing with the Securities and Exchange Commission including the Merger Agreement which was filed on April 20, 2009 is attached hereto as Attachment A.

7. A copy of the opinion of counsel for Chesapeake with respect to the legality of the proposed issuance of common stock is attached hereto as Attachment B.

8. Attached hereto as Attachment C and incorporated herein by reference is a schedule setting forth Chesapeake's balance sheet and income statement for the twelve (12) months ended December 31, 2008, both before and after the issuance of the common stock.

9. Attached hereto as Attachment D is a copy of Chesapeake's annual report on Form 10-K for the calendar year ended December 31, 2008. This report has been filed with the Securities and Exchange Commission.

10. Attached hereto as Attachment E is a copy of Chesapeake's quarterly report Form 10-Q for the quarter ended March 31, 2009. This report has been filed with the Securities and Exchange Commission.

11. Pursuant to the Commission's Minimum Filing Requirements – Part (D), attached hereto and incorporated herein by reference are the following schedules:

a) Schedule No. 1 – Capitalization ratios, actual and pro forma as of December 31, 2008.

b) Schedule No. 2 – Rate of return, actual and pro forma for the twelve (12) months ended December 31, 2008.

c) Schedule No. 3 – Fixed charge coverage ratios for the twelve (12) months ended December 31, 2008.

12. Chesapeake represents that the proposed issuance of common stock is in accordance with law, for a proper purpose, and consistent with the public interest.

WHEREFORE, Chesapeake prays as follows:

A. That the Commission file this Application and make such investigation in this matter as it deems necessary;

B. That the Commission approve the proposed issuance of common stock as described herein.

CHESAPEAKE UTILITIES CORPORATION

By: Beth W. Cooper

Beth W. Cooper
Senior Vice President and Chief Financial Officer

PARKOWSKI, GUERKE & SWAYZE, P.A.

By: _____

William A. Denman
116 West Water Street
Dover, DE 19903
Attorney for Applicant

DATED: May 18, 2009

DATED: **May 18, 2009**

STATE OF DELAWARE)
)
COUNTY OF KENT)

BE IT REMEMBERED that on this 18th day of May, 2009, personally appeared before me, a notary public for the State and County aforesaid, Beth W. Cooper, who being by me duly sworn, did depose and say that she is Senior Vice President and Chief Financial Officer 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 her personal knowledge, they are true; and insofar as those facts are not within her personal knowledge, she believes them to be true; and that the attachments accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid attachments, and that she has executed this Application on behalf of the Company and pursuant to the authorization of its Board of Directors.

Beth W. Cooper
Senior Vice President and Chief Financial Officer

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

Notary Public
My Commission Expires

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF 2.6 MILLION SHARES OF COMMON STOCK (FILED MAY 18, 2009)	)))))	PSC DOCKET NO. 09-215

ORDER NO. 7591

AND NOW, this 16th day of June, 2009:

BACKGROUND

1. On May 18, 2009, Chesapeake Utilities Corporation ("Chesapeake" or the "Company") filed with the Delaware Public Service Commission (the "Commission") an application (the "Application") pursuant to 26 *Del. C.* §215 seeking approval to issue up to 2.6 million shares of common stock in connection with the Company's acquisition of Florida Public Utilities Company ("FPU"), a Florida corporation. (Application at ¶ 4 Attachment A at 2 (Form 8-K for the period ending April 17, 2009.))

2. According to the Application: (a) FPU shareholders will receive 0.405 shares of Chesapeake's common stock in exchange for each outstanding share of FPU common stock;[1] and (b) FPU shareholders will receive an estimated 2.48 million shares of Chesapeake common stock. (Application at ¶ 4 Attachment A at 2.) Thus, the Company seeks authority to issue up to 2.6 million shares of Chesapeake common stock in exchange for the outstanding shares of FPU common stock.

[1]The Merger Agreement states that there were approximately 6.1 million FPU shares of common stock issued and outstanding as of March 31, 2009. (Merger Agreement, Attachment A, at Section 3.3.)

(Application at ¶ 4.) Based on the average of Chesapeake's closing stock price for the fifteen trading days prior to April 15, 2009, the transaction has a value of $12.20 per share of FPU common stock. (Application at Attachment A, page 2.)

4. If the Company receives the required regulatory and shareholder approvals, the Company anticipates that the acquisition will close sometime in the fourth quarter of 2009. (Application at Attachment A, page 2.) Prior to closing, FPU will redeem all of its outstanding shares of preferred stock at the redemption price(s) stipulated in the terms of the stock agreements, together with all dividends accrued and unpaid to the date of such redemption. (*Id.*) After the acquisition, FPU will become a wholly-owned subsidiary of Chesapeake under the name "Florida Public Utilities Company." (*Id.*)

5. Chesapeake will not issue any additional long-term debt in connection with the transaction. FPU's existing long-term debt as of the closing will remain with the new wholly-owned subsidiary. The estimated $3 million of FPU's short-term debt as of March 31, 2009 will be repaid and replaced with borrowings from Chesapeake's existing short-term lines of credit. (Application at ¶ 5.)

6. The Company's decision to issue common stock to acquire FPU was based on its existing and projected capital structure, the current state of the capital markets, and its belief that the use of common stock was a more economical alternative than the issuance of debt. (Company Response to Staff Interrogatory; Application at ¶ 4.) Chesapeake and FPU intend the merger to be a tax-free transaction. (Application at Attachment A, page 2.)

STAFF REVIEW AND INVESTIGATION

7. Staff Public Utilities Analyst Funmi I. Jegede was assigned to review and investigate the Company's Application. She requested the following additional information:

(a) Whether Chesapeake would file for a rate increase in the next 18 months?

(b) Who would determine the outcome of the proposed transaction?

(c) Post-closing coverage ratios.

(d) What would happen if the Commission granted authority to issue the requested 2.6 million shares but the necessary approvals for the transaction were not obtained?

(e) What would happen if the number of issued and outstanding FPU shares at the closing date was less than 6,420,000?

(f) Whether, and if so in what areas, Chesapeake would be materially affected by the proposed transaction?

THE COMPANY'S RESPONSES

8. The Company provided the following responses to Staff's request for additional information:

(a) Chesapeake will not apply for a base rate increase within the next 18 months, as the proposed transaction will not significantly affect Chesapeake's rate of return.

(b) According to the Company, SEC and shareholders from both FPU and Chesapeake are required to consummate the transaction.

(c) Although the Company is not rated by a national agency such as Moody's, Fitch or Standard & Poor's with respect to its ratio of earnings to fixed charges and preferred dividends, it provided a summary comparing its coverage ratios with those of some other regional utilities. Staff found the Company's and FPU's combined post-closing coverage ratios (on historic and annualized bases) to be satisfactory.

(d) If the Company does not secure all necessary approvals of the transaction, the transaction will be terminated and the stock will not be issued.

(e) If the number of FPU shares issued and outstanding at the closing date is less than 6,420,000, the Company will issue only the number of shares required to complete the transaction, and will not issue any more shares than are necessary to do so.

(f) The Company was unable to quantify any material effects of the proposed transaction on Chesapeake. It responded that it had no current plans to file a base rate case in the near

future, and that ratepayers would continue to be charged rates based on the elements of rate base, operating expenses, and rate of return approved by the Commission in the Company's most recent base rate case. The Company observed that the proposed transaction was structured to maintain a consistent consolidated capital structure, but that if the FPU subsidiary continued to hold its long-term debt, the parent's capital structure could be different at the time a new base rate case is filed, and the Company could not predict those ratios at this time. Furthermore, the Company observed that the proposed transaction could result in economies of scale that could reduce the amount of corporate charges per customer allocated to Chesapeake and in obtaining more favorable interest rates on long-term debt, but the Company could not quantify any such effects at this time.

STAFF'S RECOMMENDATION

9. After reviewing the Company's Application and supporting documentation and the Company's responses to its requests for additional information, Staff analyst, Jegede, concluded that the Company had complied with the filing requirements for the proposed issuance and recommended that the Application be approved.

COMMISSION FINDINGS

10. 26 *Del. C.* § 215(d) authorizes the Commission to investigate and hold such hearings in this matter as it deems necessary and, thereafter, may grant the application in whole or in part with such modification and upon such terms and conditions as may be appropriate. Section 215(d) further requires the Commission to approve any stock issuance when the proposed issuance is to be made in accordance with law, for a proper purpose, and is consistent with the public interest.

11. Section 215(d) further requires the Commission to grant, modify, refuse, or prescribe appropriate terms and conditions with respect to every such application within 30 days of its filing. In the absence of such action within 30 days, the issuance described in the application will be deemed to be approved.

12. Commission Staff has examined the proposed issuance and the schedules and exhibits thereto, and Staff's inquiries have been answered satisfactorily. Thus, Staff has determined, pursuant to 26 *Del. C.* §215(d), that the proposed issuance of up to 2.6 million shares of Chesapeake common stock will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. Accordingly, Staff recommends that the Commission approve Chesapeake's Application. Staff further recommends that the Commission direct the Company to provide notice to the Commission of the consummation of the transaction within 30 days of the closing, which notice should include the actual number of Chesapeake Utilities

Corporation shares that were issued to FPU common stockholders in the transaction.

ORDER

NOW, THEREFORE, BY A VOTE OF NOT FEWER THAN THREE COMMISSIONERS, IT IS HEREBY ORDERED:

1. That the Commission, having independently reviewed this matter and having determined that public notice and hearing are not required, finds that the Application for approval of the issuance of up to 2.6 million shares of Chesapeake Utilities Corporation common stock, filed by Chesapeake Utilities Corporation with the Commission on May 18, 2009, will be made in accordance with law, will be made for a proper purpose, and will be consistent with the public interest. The Application is, therefore approved.

2. That nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department thereof with respect to the stock of Chesapeake Utilities Corporation that may be issued under the Application herein approved.

3. That, within 30 days of the closing of the transaction, the Company shall provide notice to the Commission of the closing of the transaction, including the actual number of Chesapeake Utilities Corporation shares that were issued to FPU common stockholders in the transaction.

4. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

/s/ Arnetta McRae
Chair

/s/ Joann T. Conaway
Commissioner

/s/ Jaymes B. Lester
Commissioner

/s/ Dallas Winslow
Commissioner

/s/ Jeffrey J. Clark
Commissioner

ATTEST:

/s/ Karen J. Nickerson
Secretary

Exhibit F

CHESAPEAKE UTILITIES CORPORATION

FLORIDA PUBLIC UTILITIES

Dear Chesapeake Utilities Corporation and Florida Public Utilities Company Shareholders:

On behalf of the boards of directors and management teams of Chesapeake and Florida Public Utilities, we are pleased to enclose the joint proxy statement/prospectus relating to the merger of Chesapeake and Florida Public Utilities. Upon completion of the merger, Florida Public Utilities will be a wholly owned subsidiary of Chesapeake. We believe this merger will create a strong combined company that will deliver important benefits to our shareholders, customers and employees and to the communities we serve.

If the merger is completed, Florida Public Utilities shareholders will receive 0.405 shares of Chesapeake common stock for each share of Florida Public Utilities common stock held. The exchange ratio is fixed. Based on the number of Florida Public Utilities common shares outstanding on August 24, 2009, we estimate that Chesapeake will issue approximately 2.5 million shares of its common stock, par value $0.4867 per share, to Florida Public Utilities shareholders in connection with the merger. Chesapeake shareholders will continue to own their existing Chesapeake shares. Based on the number of shares of common stock of Chesapeake and Florida Public Utilities outstanding on August 24, 2009, Chesapeake shareholders immediately prior to the merger will own approximately 73% of the combined company and former Florida Public Utilities common shareholders will own approximately 27% of the combined company. Chesapeake's common stock will continue to be listed on the New York Stock Exchange, under the symbol "CPK".

In connection with the merger, Chesapeake and Florida Public Utilities are each holding a special meeting of their shareholders to consider and vote on the merger and certain other matters. The places, dates and times of the special meetings are as follows:

For Chesapeake shareholders:

9:00 a.m., October 22, 2009
The Board Room of PNC Bank, Delaware
222 Delaware Avenue
Wilmington, Delaware 19801

For Florida Public Utilities shareholders:

11:00 a.m., October 22, 2009
Florida Public Utilities' corporate headquarters
401 South Dixie Highway
West Palm Beach, Florida 33401

At Chesapeake's special meeting, shareholders will be asked to vote on adoption of the merger agreement, approval of the merger and the issuance of Chesapeake common stock in the merger and certain other matters. At Florida Public Utilities' special meeting, shareholders will be asked to vote on approval of the merger agreement and the merger.

Before voting, you should carefully review all the information contained in the attached joint proxy statement/prospectus. For a discussion of risk factors that you should consider in evaluating the merger, see "Risk Factors" beginning on page 19.

Your vote is very important. Whether or not you expect to attend the applicable special meeting, the details of which are described on the following pages, please complete, sign, date and promptly return the accompanying proxy card in the enclosed envelope or submit your vote by telephone or over the Internet if that option is available to you. We enthusiastically support the merger of our two companies and join with our boards of directors in recommending that you vote ***FOR*** the proposals related to the merger.

Sincerely,

John R. Schimkaitis
President and CEO
Chesapeake Utilities Corporation

Sincerely,

John T. English
Chairman, President and CEO
Florida Public Utilities Company

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved the merger described in this joint proxy statement/prospectus nor have they approved or disapproved the issuance of the Chesapeake common stock to be issued in connection with the merger, or determined if this joint proxy statement/prospectus is accurate or adequate. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated September 10, 2009, and is first being mailed to the shareholders of Chesapeake and Florida Public Utilities on or about September 15, 2009.

CHESAPEAKE
UTILITIES CORPORATION

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF CHESAPEAKE UTILITIES CORPORATION TO BE HELD ON OCTOBER 22, 2009

To the Shareholders of Chesapeake Utilities Corporation:

We will hold a special meeting of the shareholders of Chesapeake Utilities Corporation, on October 22, 2009 at 9:00 a.m., Eastern Daylight Time, in the Board Room of PNC Bank, Delaware, located at 222 Delaware Avenue, Wilmington, Delaware 19801, to consider and vote upon the following matters:

- a proposal to adopt the Agreement and Plan of Merger, dated as of April 17, 2009, by and among Chesapeake, Florida Public Utilities Company and CPK Pelican, Inc., and approve the merger and the issuance of Chesapeake common stock in the merger. CPK Pelican, Inc. is a wholly owned subsidiary of Chesapeake that will merge into Florida Public Utilities; and
- a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.

Only holders of record of Chesapeake common stock at the close of business on August 24, 2009, the record date for the special meeting, are entitled to receive this notice and to vote their shares at the special meeting or any adjournment or postponement of the special meeting.

We cannot complete the merger described above unless holders of a majority of all shares of Chesapeake common stock outstanding that are entitled to vote at the Chesapeake special meeting vote to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/prospectus and the merger agreement attached to it.

The Chesapeake board of directors unanimously recommends that Chesapeake shareholders vote "FOR" the adoption of the merger agreement and the approval of the merger and the issuance of Chesapeake common stock in the merger and "FOR" the adjournment of the Chesapeake special meeting if necessary or appropriate to permit further solicitation of proxies.

By Order of the Board of Directors,

Beth W. Cooper

Beth W. Cooper
Corporate Secretary

Dover, Delaware
September 15, 2009

IMPORTANT

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. You may also cast your vote by telephone or over the Internet by following the instructions on your proxy card. If you vote by telephone or over the Internet, you do not need to submit your proxy card. **Remember, your vote is important, so please act today!**

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS OF FLORIDA PUBLIC UTILITIES COMPANY TO BE HELD ON OCTOBER 22, 2009

To the Shareholders of Florida Public Utilities Company:

We will hold a special meeting of the shareholders of Florida Public Utilities Company, on October 22, 2009 at 11:00 a.m., Eastern Daylight Time, at Florida Public Utilities' corporate headquarters, located at 401 South Dixie Highway, West Palm Beach, Florida 33401, to consider and vote upon the following matters:

- a proposal to approve the Agreement and Plan of Merger, dated as of April 17, 2009, by and among Florida Public Utilities, Chesapeake Utilities Corporation and CPK Pelican, Inc., and the merger contemplated by the merger agreement. CPK Pelican, Inc. is a wholly owned subsidiary of Chesapeake that will merge into Florida Public Utilities; and
- a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.

Only holders of record of Florida Public Utilities common stock at the close of business on August 24, 2009, the record date for the special meeting, are entitled to receive this notice and to vote their shares at the special meeting or any adjournment or postponement of the special meeting.

We cannot complete the merger described above unless holders of a majority of all shares of Florida Public Utilities common stock outstanding that are entitled to vote at the Florida Public Utilities special meeting vote to approve the merger agreement and the merger.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/prospectus and the merger agreement attached to it.

The Florida Public Utilities board of directors unanimously recommends that Florida Public Utilities shareholders vote "FOR" the approval of the merger agreement and the merger and "FOR" the adjournment of the Florida Public Utilities special meeting if necessary or appropriate to permit further solicitation of proxies.

By Order of the Board of Directors,

George M. Bachman
Secretary

West Palm Beach, Florida
September 15, 2009

IMPORTANT

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid envelope. You may also cast your vote by telephone or over the Internet by following the instructions on your proxy card. If you vote by telephone or over the Internet, you do not need to submit your proxy card. **Please do not send any stock certificates at this time. Remember, your vote is important, so please act today!**

REFERENCES TO ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates important business and financial information about Chesapeake and Florida Public Utilities from documents that are not included in or delivered with this joint proxy statement/prospectus. You can review documents incorporated by reference in this joint proxy statement/prospectus, other than certain exhibits to those documents, free of charge through the Securities and Exchange Commission website (*www.sec.gov*) or by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, Delaware 19904
Attention: Corporate Secretary
(888) 742-5275

Florida Public Utilities Company
401 South Dixie Highway
West Palm Beach, FL 33401
Attention: Secretary
(800) 427-7712

You will not be charged for any of these documents that you request. Chesapeake and Florida Public Utilities shareholders requesting documents should do so by October 10, 2009.

See "Where You Can Find More Information" beginning on page 127.

VOTING BY TELEPHONE, INTERNET OR MAIL

Chesapeake shareholders of record may submit their proxies by:

Telephone. You can vote by telephone by calling the toll-free number (800) 652-VOTE (8683) in the United States, Canada or Puerto Rico on a touch-tone telephone. You will then be prompted to enter the control number printed on your proxy card and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 11:59 p.m. Eastern Daylight Time on October 21, 2009. If you vote by telephone, you do not need to return your proxy card(s) or voting instruction card(s).

Internet. You can vote over the Internet by accessing the website at *www.investorvote.com* and following the instructions on the secure website. Internet voting is available 24 hours a day until 11:59 p.m. Eastern Daylight Time on October 21, 2009. If you vote over the Internet, you do not need to return your proxy card(s) or voting instruction card(s).

Mail. You can vote by mail by completing, signing, dating and mailing your proxy card(s) or voting instruction card(s) in the postage-paid envelope included with this joint proxy statement/prospectus.

Florida Public Utilities shareholders of record may submit their proxies by:

Telephone. You can vote by telephone by calling the toll-free number (800)-PROXIES (776-9437) in the United States, Canada or Puerto Rico on a touch-tone telephone. You will then be prompted to enter the control number printed on your proxy card and to follow the subsequent instructions. Telephone voting is available 24 hours a day until 11:59 p.m. Eastern Daylight Time on October 21, 2009. If you vote by telephone, you do not need to return your proxy card(s) or voting instruction card(s).

Internet. You can vote over the Internet by accessing the website at *www.voteproxy.com* and following the instructions on the secure website. Internet voting is available 24 hours a day until 11:59 p.m. Eastern Daylight Time on October 21, 2009. If you vote over the Internet, you do not need to return your proxy card(s) or voting instruction card(s).

Mail. You can vote by mail by completing, signing, dating and mailing your proxy card(s) or voting instruction card(s) in the postage-paid envelope included with this joint proxy statement/prospectus.

If you hold your Chesapeake or Florida Public Utilities shares through a bank, broker, custodian or other record holder:

Please refer to your proxy card or voting instruction form or the information forwarded by your bank, broker, custodian or other record holder to see which voting methods are available to you.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are answers to certain questions that you may have regarding your special meeting. Chesapeake and Florida Public Utilities urge you to read carefully the remainder of this joint proxy statement/prospectus because the information in this section may not provide all that might be important to you in determining how to vote. Additional important information is also contained in the annexes to, and the documents incorporated by reference in, this joint proxy statement/prospectus.

Q: What will happen in the proposed merger?

A: Prior to entering into the merger agreement, Chesapeake formed a new wholly owned Florida corporation, CPK Pelican, Inc. CPK Pelican, Inc. will merge into Florida Public Utilities. Florida Public Utilities will continue as the surviving corporation and become a wholly owned subsidiary of Chesapeake.

After the merger, the current shareholders of Chesapeake and common shareholders of Florida Public Utilities will be the shareholders of Chesapeake.

Q: Why am I receiving this document?

A: Chesapeake and Florida Public Utilities are delivering this document to you because it is a joint proxy statement being used by both the Chesapeake and Florida Public Utilities boards of directors to solicit proxies of Chesapeake and Florida Public Utilities shareholders in connection with the merger agreement and the merger. In addition, this document is a prospectus being delivered to Florida Public Utilities shareholders because Chesapeake is offering shares of its common stock to be issued in exchange for shares of Florida Public Utilities common stock in connection with the merger.

Q: What are holders of Florida Public Utilities common stock being asked to vote on?

A: Holders of Florida Public Utilities common stock are being asked to approve the merger agreement and the merger and to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of approval of the merger agreement and the merger.

Q: What are holders of Chesapeake common stock being asked to vote on?

A: Holders of Chesapeake common stock are being asked to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger and to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies in favor of adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock in the merger.

Q: Why have Chesapeake and Florida Public Utilities decided to merge?

A: Chesapeake and Florida Public Utilities believe that the merger will provide strategic and financial benefits to shareholders, customers and employees, including:

- increased scale and scope of the combined company's energy presence in Florida;
- a stronger utility business platform;
- a diversified customer base, energy portfolio and utility foundation, as well as a broader geographical presence;
- common regulatory framework and Florida's supportive regulatory climate;
- increased capabilities to serve the expected future growth in Florida;
- combined expertise;
- synergistic opportunities;
- continued focus on reliability and customer service;
- increased financial flexibility and continued access to capital markets; and
- a stronger utility infrastructure to support continued growth in the local communities.

Q: Why is my vote important?

A: If you do not return your proxy card by mail or submit your proxy by telephone or over the Internet or vote in person at your special meeting, it may be difficult for Chesapeake and Florida Public Utilities to obtain the necessary quorum to hold their respective special meetings.

In addition, if you are a Chesapeake shareholder, **your failure to vote will have the same effect as a vote against adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock in the merger.** With respect to the proposal to adjourn the special meeting if necessary or appropriate in order to solicit additional proxies, an abstention will have the same effect as a vote against the proposal. **Chesapeake's board of directors unanimously recommends that the Chesapeake shareholders vote "FOR" the adoption of the merger agreement and the approval of the merger and the issuance of Chesapeake common stock in the merger and "FOR" the adjournment of the Chesapeake special meeting if necessary or appropriate to permit further solicitation of proxies.**

If you are a Florida Public Utilities shareholder, **your failure to vote will have the same effect as a vote against approval of the merger agreement and the merger.** With respect to the proposal to adjourn the special meeting if necessary or appropriate in order to solicit additional proxies, an abstention will have the same effect as a vote against the proposal. **Florida Public Utilities' board of directors unanimously recommends that the Florida Public Utilities shareholders vote "FOR" the approval of the merger agreement and the merger and "FOR" the adjournment of the Florida Public Utilities special meeting if necessary or appropriate to permit further solicitation of proxies.**

No matter how many or few shares you own you are encouraged to vote and have your voice heard.

Q: When and where are the special meetings?

A: The Chesapeake special meeting will take place on October 22, 2009 at 9:00 a.m., Eastern Daylight Time, in the Board Room of PNC Bank, Delaware, located at 222 Delaware Avenue, Wilmington, Delaware 19801.

The Florida Public Utilities special meeting will take place on October 22, 2009 at 11:00 a.m., Eastern Daylight Time, at Florida Public Utilities' corporate headquarters, located at 401 South Dixie Highway, West Palm Beach, Florida 33401.

Additional information relating to the Chesapeake and Florida Public Utilities special meetings begins on page 98.

Q: What will I receive for my common shares in Florida Public Utilities?

A: As a result of the merger, the holders of Florida Public Utilities common stock will receive 0.405 shares of Chesapeake common stock for each share of Florida Public Utilities common stock held. Holders of Florida Public Utilities common stock will receive cash in lieu of fractional shares.

Q: What vote is required to approve the merger and related matters?

A: For Chesapeake, the affirmative vote of a majority of its shares of common stock outstanding and entitled to vote as of the record date is required to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger.

For Florida Public Utilities, the affirmative vote of a majority of its shares of common stock outstanding and entitled to vote as of the record date is required to approve the merger agreement and the merger.

Additional information on the vote required to approve the merger and related matters is located on page 100.

Q: What will happen to my dividends?

A: Florida Public Utilities may continue to pay its regular quarterly cash dividend in amounts consistent with past practice and does not currently anticipate making any changes to its dividend policy prior to the consummation of the merger. Similarly, Chesapeake may continue to pay its regular quarterly cash dividend in

amounts consistent with past practice and does not currently anticipate making any changes to its dividend policy prior to the consummation of the merger.

Chesapeake currently expects to continue its dividend policy after consummation of the merger. Additional information on Chesapeake's expected dividend policy after the merger is located on page 67.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this joint proxy statement/prospectus, please vote promptly by calling the toll-free number listed on your proxy card, accessing the Internet website listed on your proxy card or by completing, signing and dating your proxy card and returning it by mail in the enclosed postage-paid envelope. If you hold your stock in "street name" through a bank or broker, you must direct your bank or broker to vote in accordance with the instructions you have received from your bank or broker. Submitting your proxy by telephone, Internet or mail or directing your bank or broker to vote your shares will ensure that your shares are represented and voted at your special meeting; see *"Can I attend the special meeting and vote my shares in person?"*

Florida Public Utilities shareholders should not send in their share certificates now. After the merger is approved, holders of Florida Public Utilities common shares will receive instructions as to what to do with their share certificates. Chesapeake shareholders will not need to take any action regarding their share certificates.

Additional information on voting procedures begins on page 100.

Q: How will my proxy be voted?

A: If you vote by telephone, over the Internet, or by completing, signing, dating and returning your signed proxy card, your proxy will be voted in accordance with your instructions. The proxy confers discretionary authority to the named proxies. Accordingly, if you complete, sign, date and return your proxy card and do not indicate how you want to vote, your shares will be voted, in the case of Chesapeake, "FOR" the adoption of the merger agreement and the approval of the merger and the issuance of Chesapeake common stock in the merger and "FOR" the approval to adjourn the special meeting if necessary or appropriate to solicit additional proxies and, in the case of Florida Public Utilities, "FOR" the approval of the merger agreement and the merger and "FOR" the approval to adjourn the special meeting if necessary or appropriate to solicit additional proxies.

Additional information on voting procedures begins on page 100.

Q: If my broker holds my shares in "street name," will my broker automatically vote my shares for me?

A: No. If you do not provide your broker with instructions on how to vote your "street name" shares, your broker **will not** be permitted to vote them on your behalf. You should therefore be sure to provide your broker with instructions on how to vote your shares, following the directions your broker provides to you. Please check the voting form used by your broker to see if the broker offers telephone or Internet voting. **All shareholders are urged to have their voices heard on this important matter — please vote your shares today.**

Q: What if I fail to instruct my broker?

A: If you fail to instruct your broker to vote your shares and the broker submits an unvoted proxy, referred to as a broker non-vote, the broker non-vote will be counted toward a quorum at your respective special meeting, but effectively will be treated as a vote against the proposals unless you appear and vote in person at your special meeting.

See *"What can I do if I want to change or revoke my vote?"* beginning on page 4 for information on changing your vote if your shares are held in "street name."

Q: Can I attend the special meeting and vote my shares in person?

A: Yes. All holders of Chesapeake common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, custodians or any other record holder, are invited to attend the Chesapeake special meeting. Holders of record of Chesapeake common stock as of the record date can vote in person at the Chesapeake special meeting. If you are not a shareholder of record, you must obtain a valid proxy, executed in your favor, from the record holder of your shares, such as a bank, broker, custodian or other record holder, to be able to vote in person at the Chesapeake special meeting.

All holders of Florida Public Utilities common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, custodians or any other record holder, are invited to attend the Florida Public Utilities special meeting. Holders of record of Florida Public Utilities common stock as of the record date can vote in person at the Florida Public Utilities special meeting. If you are not a shareholder of record, you must obtain a valid proxy, executed in your favor, from the record holder of your shares, such as a bank, broker, custodian or other record holder, to be able to vote in person at the Florida Public Utilities special meeting.

If you plan to attend either the Chesapeake or Florida Public Utilities special meeting, as applicable, you must hold your shares in your own name, or have a letter or recent brokerage statement from the record holder of your shares confirming your ownership, and you must bring a form of personal photo identification with you in order to be admitted. Chesapeake and Florida Public Utilities reserve the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification.

Q: Is the merger expected to be taxable to Florida Public Utilities shareholders?

A: Generally, no. The merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (referred to as the Code). It is intended that holders of Florida Public Utilities common stock will not recognize any gain or loss for federal income tax purposes on the exchange of shares of Florida Public Utilities common stock for shares of Chesapeake common stock in the merger, except with respect to cash received instead of fractional shares of Chesapeake common stock.

You should read "The Merger — Material Federal Income Tax Consequences of the Merger" beginning on page 67 for a more complete discussion of the United States federal income tax consequences of the merger. Tax matters can be complicated and the tax consequences of the merger to you will depend on your particular tax situation. **You should consult your tax advisor to determine the tax consequences of the merger to you.**

Q: What does it mean if I receive more than one set of materials?

A: This means you own shares of both Chesapeake and Florida Public Utilities or you own shares of Chesapeake or Florida Public Utilities that are registered under different names. For example, you may own some shares directly as a shareholder of record and other shares through a broker, or you may own shares through more than one broker. In these situations, you will receive multiple sets of proxy materials. You must complete, sign, date and return all of the proxy cards or follow the instructions for any alternative voting procedures on each of the proxy cards you receive in order to vote all of the shares you own. Each proxy card you receive will come with its own postage-paid return envelope; if you vote by mail, make sure you return each proxy card in the return envelope that accompanied that proxy card.

Q: What can I do if I want to change or revoke my vote?

A: Regardless of the method you used to cast your vote, if you are a holder of record, you may change your vote by completing, signing, dating and returning a new proxy card with a later date, by calling the toll-free number listed on the proxy card or by accessing the Internet website listed on the proxy card by 11:59 p.m., Eastern Daylight Time on October 21, 2009 or by attending your special meeting and voting by ballot at your special meeting. You may also revoke your proxy card by sending a notice of revocation, which must be received prior to your special meeting, to the designated representative of the appropriate company at the address provided under "Where You Can Find More Information" on page 127.

If you hold your shares in street name, and wish to change or revoke your vote, please refer to the information on the voting instruction form included with these materials and forwarded to you by your bank, broker, custodian or other record holder to see your voting options.

Additional information on changing your vote is located on page 103.

Q: As a participant in the Chesapeake 401(k) Retirement Savings Plan, how do I vote shares held in my plan account?

A: If you are a participant in Chesapeake's 401(k) Retirement Savings Plan, you will receive proxy materials and a proxy card from the trustee of the Plan. You can complete the proxy card in order to instruct the trustee how to vote the shares of stock that are allocated to your account. If you do not instruct the trustee how to vote your shares, the trustee will vote them, based upon the recommendation of the Chesapeake board of directors, in favor of the adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock in the merger and in favor of adjournment of the Chesapeake special meeting if necessary or appropriate to permit further solicitation of proxies. Likewise, the trustee will vote shares that have not been allocated to any account in the same manner.

Q: If I am a holder of Florida Public Utilities common stock with shares represented by stock certificates, should I send in my Florida Public Utilities stock certificates now?

A: No. You should not send in your Florida Public Utilities stock certificates at this time. After completion of the merger, Chesapeake will send you instructions for exchanging Florida Public Utilities stock certificates for the merger consideration.

Q: Will Chesapeake shareholders receive any shares as a result of the merger?

A: No. Chesapeake shareholders will continue to hold the Chesapeake shares they currently own.

Q: When do you expect to complete the merger?

A: Chesapeake and Florida Public Utilities expect to complete the merger during the fourth quarter of 2009, although completion by any particular date cannot be assured.

Q: Whom should I call if I have questions about the special meeting or the merger?

A: Chesapeake shareholders should call Georgeson Inc., Chesapeake's proxy solicitor, at 888-666-2580.

Florida Public Utilities shareholders should call Mackenzie Partners, Inc., Florida Public Utilities' proxy solicitor, at 800-322-2885.

SUMMARY

This summary highlights selected information from this joint proxy statement/prospectus and may not contain all of the information that is important to you. To fully understand the merger and for a more complete description of the legal terms of the merger agreement, you should carefully read this entire document and the documents referred to herein. See "Where You Can Find More Information" on page 127. Chesapeake and Florida Public Utilities have included page references parenthetically to direct you to a more complete description of the topics presented in this summary.

The Companies (see page 73)

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, DE 19904
(302) 734-6799
Internet address: *www.chpk.com*

Incorporated in 1947, Chesapeake is a diversified utility company engaged in natural gas distribution, transmission and marketing, propane distribution and wholesale marketing, advanced information services and other related businesses. In total, Chesapeake currently serves approximately 100,000 distribution customers with either natural gas or propane gas. Chesapeake employs approximately 448 people and generated $291.4 million in revenues for 2008.

Florida Public Utilities Company
401 South Dixie Highway
West Palm Beach, Florida 33401
(561) 832-0872
Internet address: *www.fpuc.com*

Founded in 1924, Florida Public Utilities distributes natural gas, propane and electricity to residential, commercial and industrial customers in Florida. Florida Public Utilities is organized into two regulated business segments — natural gas and electric; and one non-regulated business segment — propane gas. Florida Public Utilities also sells merchandise and other service-related products as a complement to its natural gas and propane segments. Florida Public Utilities serves approximately 96,000 customers, employs approximately 348 people and generated $168.5 million in revenues for 2008.

The Merger (see page 32)

Under the terms of the proposed merger, CPK Pelican, Inc., a wholly owned subsidiary of Chesapeake formed for the purpose of the merger, will be merged with and into Florida Public Utilities. As a result, Florida Public Utilities will continue as the surviving corporation and will become a wholly owned subsidiary of Chesapeake. Accordingly, Florida Public Utilities shares will no longer be publicly traded. Chesapeake common shares will continue to be traded on the New York Stock Exchange under the symbol "CPK".

The merger agreement is attached as Annex A to this joint proxy statement/prospectus. Please read the merger agreement carefully and fully as it is the legal document that governs the merger. For a summary of the merger agreement, see "The Merger Agreement" on page 74.

What Holders of Florida Public Utilities Common Stock Will Receive in the Merger (see page 74)

Under the terms of the merger agreement, holders of Florida Public Utilities common stock will have a right to receive 0.405 of a share of Chesapeake common stock for each share of Florida Public Utilities common stock held immediately prior to the merger. Chesapeake will not issue any fractional shares of Chesapeake common stock in the merger. Instead, a holder of Florida Public Utilities common stock who otherwise would have received a fraction of a share of Chesapeake common stock will receive an amount in cash rounded to the nearest cent. This cash amount will be determined by multiplying the fraction of a share

of Chesapeake common stock to which the holder would otherwise be entitled by the average of the closing sale prices of Chesapeake common stock on the New York Stock Exchange for the 15 trading days ending on the third trading day immediately preceding the date on which the merger is completed.

Example: If you own 100 shares of Florida Public Utilities common stock, you will be entitled to receive 40 shares of Chesapeake common stock and a cash payment instead of the 0.5 shares of Chesapeake common stock that you otherwise would have received.

The number of shares of Chesapeake common stock issued in the merger for each share of Florida Public Utilities common stock is fixed. Accordingly, common shareholders of Florida Public Utilities may receive more or less value depending on fluctuations in the price of Chesapeake common stock. At the time of their respective special meetings, Chesapeake and Florida Public Utilities shareholders will not know the exact value of the Chesapeake common stock that will be issued in connection with the merger.

Material Federal Income Tax Consequences of the Merger (see page 67)

The merger is intended to be treated as a reorganization within the meaning of Section 368(a) of the Code, and it is a condition to the respective obligations of Chesapeake and Florida Public Utilities to complete the merger that each of Chesapeake and Florida Public Utilities receive a legal opinion to that effect. Accordingly, the merger generally will be tax-free to holders of Florida Public Utilities common stock for United States federal income tax purposes as to the shares of Chesapeake common stock such holders receive in the merger, except for any gain or loss that may result from the receipt of cash instead of fractional shares of Chesapeake common stock that such holders would otherwise be entitled to receive.

The United States federal income tax consequences described above may not apply to all holders of Florida Public Utilities common stock. Your tax consequences will depend on your individual situation. Accordingly, please consult your tax advisor for a full understanding of the particular tax consequences of the merger to you.

Recommendations by Boards of Directors (see pages 43 and 51)

Recommendation of the Chesapeake Board:

The Chesapeake board of directors believes that the merger agreement and the merger are in the best interests of Chesapeake and its shareholders and has approved the merger agreement and the merger. The Chesapeake board of directors recommends that Chesapeake shareholders vote **"FOR"** the proposal to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger.

Recommendation of the Florida Public Utilities Board:

The Florida Public Utilities board of directors believes that the merger is in the best interests of Florida Public Utilities and its shareholders and has approved the merger agreement and the merger. The Florida Public Utilities board of directors recommends that Florida Public Utilities shareholders vote **"FOR"** the proposal to approve the merger agreement and the merger. When you consider the Florida Public Utilities board of directors' recommendation, you should be aware that Florida Public Utilities' directors may have interests in the merger that may be different from, or in addition to, interests of the Florida Public Utilities shareholders. These interests are described in "The Merger — Interests of Florida Public Utilities' Directors and Executive Officers in the Merger" beginning on page 64.

Reasons for the Merger (see pages 43 and 51)

The boards of directors of Chesapeake and Florida Public Utilities believe that the merger will benefit shareholders, customers and employees of both companies by creating a combined energy company with greater geographic breadth, organizational capabilities and financial resources to take advantage of existing and new opportunities.

The boards of both companies believe that the combined company will benefit from:

- **Increased Scale and Scope.** The merger will create a larger, regionally focused energy company serving approximately twice the number of energy customers served presently by Chesapeake. As a result of the merger, the combined company's energy presence in Florida will be more comparable to the regional energy presence Chesapeake currently maintains on the Delmarva Peninsula. The combined operations will include sizable customer bases for electric, natural gas and propane in several key markets across Florida including the Southeast, Central, Northeast and Panhandle geographic areas. The increased scale and scope is expected to result in greater efficiencies provided by economies of scale.

- **Stronger Utility Business Platform.** Chesapeake's strategy has been to enhance its utility foundation and furthermore to grow its earnings from a stable utility foundation by investing in related businesses and services that provide opportunities for higher returns. The merger will enhance Chesapeake's existing utility foundation as a result of the addition of Florida Public Utilities' natural gas and electric distribution businesses. Increased diversity within the utility portfolio will result from the merger, as Florida Public Utilities' electric business will expand both Chesapeake's energy portfolio and its utility foundation.

- **Diversified Portfolio of Investments.** Chesapeake and Florida Public Utilities believe that the combined company will benefit from a more diversified portfolio of investments. Additionally, diversity will result in the combined company's customer base, energy portfolio, utility foundation, as well as its broader geographical presence.

- **Common Regulatory Framework and Benefits of Florida's Supportive Regulatory Climate.** Chesapeake and Florida Public Utilities believe that the combined company will benefit from the favorable Florida regulatory framework applicable to the combined company's franchised service areas, diversified regulatory risk and the combined expertise in operating the regulated businesses under complex regulations. In addition, Chesapeake's board of directors considered the long history of the Florida Public Service Commission actively promoting natural gas expansion throughout the state.

- **Positioned to Benefit from Future Florida Growth.** Long-term forecasts project Florida to be among the fastest growing states in the country. Although the current economic climate has caused a temporary decline in growth, state projections for Florida anticipate that population growth will begin to slowly increase again in 2010 and accelerate thereafter. Chesapeake and Florida Public Utilities believe that the combined company will be well-positioned to help meet the energy needs of new residential consumers in the combined service territory, along with the commercial development that typically follows. Chesapeake and Florida Public Utilities believe the merger will create a stronger company with increased capabilities to serve the future growth.

- **Combined Expertise.** Chesapeake and Florida Public Utilities believe that the combined company will benefit from each company's experience and expertise in the natural gas and propane distribution businesses. In addition, the combined company's natural gas and electric operations will benefit from the regulatory and customer service expertise of each company in Florida. Chesapeake and Florida Public Utilities believe that the combined company will be able to effectively utilize the intellectual capital, technical expertise and experience of a deeper, more diverse workforce.

- **Impact on Customers.** Customers will benefit from the economies of scale, the increased availability of capital to extend service to more customers, other operating efficiencies resulting from the merger, and a continued focus on safety and reliability. Chesapeake and Florida Public Utilities believe that the merger will result in a reduction in aggregated rate increase requests for the combined company's natural gas and electric operations, which would benefit the combined company's utility customers in Florida.

- **Synergistic Opportunities.** Chesapeake and Florida Public Utilities believe that the merger presents opportunities to operate more effectively, creating additional efficiencies at all levels of the combined company and enabling further implementation of best practices.

- **Financial Considerations and Increased Financial Strength.** Chesapeake and Florida Public Utilities believe that the increased scale and scope resulting from the merger will generate increased financial flexibility and ensure continued access to capital markets.

- **Impact of the Merger on Communities.** Chesapeake and Florida Public Utilities believe that the communities served by the combined company will benefit from each company's history of being a good corporate citizen in their respective communities and supporting growth of the communities they serve. The local communities will benefit from the combined company's ability to provide a stronger utility infrastructure capable of supporting continued growth in the local communities.

As a result, the boards of directors of Chesapeake and Florida Public Utilities believe the merger will lead to more consistent and stronger shareholder and customer value creation over the long-term.

Shareholder Votes Required (see page 100)

For Chesapeake Shareholders:

Adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock in the merger requires the affirmative vote of at least a majority of the outstanding shares of Chesapeake common stock.

On the record date, directors and executive officers of Chesapeake and their affiliates beneficially owned or had the right to vote 314,363 shares of Chesapeake common stock, representing approximately 4.6% of the shares outstanding on the record date. While there are no voting agreements or arrangements with any directors, officers or other shareholders of Chesapeake relating to the merger of which Chesapeake is aware, to Chesapeake's knowledge, directors and executive officers of Chesapeake and their affiliates intend to vote their common stock in favor of the proposal to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger.

For Florida Public Utilities Shareholders:

Approval of the merger agreement and the merger requires the affirmative vote of at least a majority of the outstanding shares of Florida Public Utilities common stock.

On the record date, directors and executive officers of Florida Public Utilities and their affiliates beneficially owned or had the right to vote 351,192 shares of Florida Public Utilities common stock, representing approximately 5.7% of the shares of Florida Public Utilities common stock outstanding on the record date. While there are no voting agreements or arrangements with any directors, officers or other shareholders of Florida Public Utilities relating to the merger of which Florida Public Utilities is aware, to Florida Public Utilities' knowledge, directors and executive officers of Florida Public Utilities and their affiliates intend to vote their common stock in favor of the approval of the merger agreement and the merger.

Ownership of Chesapeake After the Merger

Chesapeake will issue approximately 2.5 million shares of Chesapeake common stock to Florida Public Utilities common shareholders in the merger. At the completion of the merger, it is expected that there will be outstanding approximately 9.4 million shares of Chesapeake. The shares of Chesapeake common stock to be issued to Florida Public Utilities common shareholders in the merger will represent approximately 27% of the outstanding Chesapeake common stock after the merger.

Conditions to the Completion of the Merger (see page 83)

Currently, Chesapeake and Florida Public Utilities expect to complete the merger in the fourth quarter of 2009. As more fully described in this joint proxy statement/prospectus and in the merger agreement, the completion of the merger depends on a number of conditions being satisfied or, where legally permissible, waived. These conditions include, among others, receipt of the requisite approvals of each company's

shareholders, the receipt of all required regulatory approvals, and the receipt by the companies of a legal opinion regarding the United States federal income tax treatment of the merger.

Termination of the Merger Agreement (see page 84)

Chesapeake and Florida Public Utilities may mutually agree to terminate the merger agreement before completing the merger, even after Chesapeake shareholder approval and/or Florida Public Utilities shareholder approval, as long as the termination is approved by each of the Chesapeake and Florida Public Utilities board of directors. In addition, either Chesapeake or Florida Public Utilities may terminate the merger agreement, even after Chesapeake shareholder approval and/or Florida Public Utilities shareholder approval, under certain specified circumstances, including:

- if the merger has not been completed by January 31, 2010 (subject to possible extension to March 31, 2010 under specified circumstances), unless the failure to complete the merger by that date is due to the terminating party's failure to abide by the merger agreement;
- if either party has failed to obtain the requisite vote of its shareholders required for the consummation of the merger at a duly held meeting of its shareholders or at any adjournment or postponement thereof;
- if any final and nonappealable government order preventing the merger is in effect;
- if the other party materially breaches the merger agreement and such breach is incapable of being or is not timely cured and gives rise to the failure to satisfy a closing condition; or
- if the other party suffers a material adverse effect.

In addition, Chesapeake may terminate the merger agreement if Florida Public Utilities' board of directors either changes its recommendation of the merger agreement and the merger in a manner adverse to Chesapeake or recommends a third party "takeover proposal" of the type described in "The Merger Agreement — Covenants" on page 76.

Furthermore, Florida Public Utilities may terminate the merger agreement, subject to specified conditions, if Florida Public Utilities' board of directors authorizes Florida Public Utilities to enter into a written agreement concerning a transaction that Florida Public Utilities' board of directors has determined in accordance with the merger agreement is a "superior proposal" of the type described in "The Merger Agreement — Covenants" on page 76.

Termination Fee (see page 85)

Under certain circumstances involving a third-party takeover proposal of Florida Public Utilities or a change in the Florida Public Utilities board of directors' recommendation of the merger agreement and the merger, Florida Public Utilities may be required, subject to certain conditions, to pay a termination fee of $3.4 million to Chesapeake.

No Solicitation (see page 76)

The merger agreement restricts the ability of Florida Public Utilities to solicit or engage in discussions or negotiations with a third party regarding a "takeover proposal" of the type described in "The Merger Agreement — Covenants." If, however, Florida Public Utilities receives an unsolicited "takeover proposal" from a third party that Florida Public Utilities' board of directors determines in good faith, after consultation with its legal and financial advisors, constitutes a "superior proposal" of the type described in "The Merger Agreement — Covenants" or there is a reasonable likelihood that the proposal could result in a "superior proposal," Florida Public Utilities may furnish information to the third party and engage in discussions and negotiations regarding the proposal with the third party, subject to other specified conditions. Florida Public Utilities is also permitted to take and disclose to its shareholders its position with respect to any third-party "takeover proposal" as may be required under the federal securities laws.

Regulatory Approvals (see page 70)

Chesapeake and Florida Public Utilities agreed to use their reasonable best efforts to obtain all regulatory approvals required to complete the transactions contemplated by the merger agreement. These approvals include expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (referred to as the HSR Act), and approvals, to the extent required, from the Florida, Delaware and Maryland Public Service Commissions. The applicable waiting period under the HSR Act expired on June 4, 2009 and all required approvals from the Florida, Delaware and Maryland Public Service Commissions have been obtained. No further action is required of the companies with respect to these regulatory approvals.

Shareholder Litigation Related to the Merger (see page 72)

Certain litigation is pending in connection with the merger. See "The Merger — Shareholder Litigation Related to the Merger" beginning on page 72.

Chesapeake Board of Directors following Completion of the Merger (see page 82)

Upon completion of the merger, the Chesapeake board of directors will consist of those directors serving immediately prior to the completion of the merger and two directors from among the directors of Florida Public Utilities serving immediately prior to the completion of the merger.

Transaction, Integration and Merger-Related Costs

The transaction was valued at approximately $73.5 million as of the date of its announcement. Chesapeake and Florida Public Utilities also expect to incur costs of approximately $6.5 million associated with combining the operations of the two companies, which include transaction, integration and merger-related costs (including filing and registration fees with the SEC and New York Stock Exchange, printing and mailing costs associated with this joint proxy statement/prospectus, and legal, accounting, financial advisory, consulting, public relations and proxy solicitation fees), but exclude change in control and stay bonus payments and costs incurred in connection with any shareholder litigation related to the merger. John T. English, the Chairman, President and Chief Executive Officer of Florida Public Utilities, will receive a $780,000 change in control payment and Florida Public Utilities' other two most highly compensated executive officers, Charles L. Stein and George M. Bachman, will receive stay bonus payments of $575,000 and $520,000, respectively. Additional costs may be incurred in the integration of the businesses of Chesapeake and Florida Public Utilities.

Listing of Chesapeake Common Stock

The shares of Chesapeake common stock to be issued in the merger will be listed on the New York Stock Exchange under the ticker symbol "CPK".

No Dissenters' or Appraisal Rights (see page 71)

Dissenters' or appraisal rights are statutory rights that, if applicable under law, enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction. Dissenters' or appraisal rights are not available in all circumstances, and exceptions to these rights are provided, in the case of Chesapeake, under the Delaware General Corporation Law (referred to as the DGCL) and, in the case of Florida Public Utilities, under the Florida Business Corporation Act (referred to as the FBCA). As a result of one of the exceptions under the DGCL, the Chesapeake shareholders are not entitled to dissenters' or appraisal rights in connection with the merger. Similarly, as a result of one of the exceptions under the FBCA, Florida Public Utilities shareholders are not entitled to dissenters' or appraisal rights in connection with the merger.

Comparison of Shareholder Rights (see page 105)

The rights of Florida Public Utilities shareholders are governed by Florida law, as well as Florida Public Utilities' restated articles of incorporation and bylaws. After completion of the merger, the rights of former Florida Public Utilities shareholders who receive Chesapeake common stock in the merger will be governed by Delaware law and Chesapeake's restated certificate of incorporation and amended and restated bylaws. This joint proxy statement/prospectus contains descriptions of the material differences in shareholder rights beginning on page 105.

Interests of Florida Public Utilities' Directors and Executive Officers in the Merger (see page 64)

Certain of Florida Public Utilities' directors and executive officers have interests in the merger as individuals that are different from, or in addition to, the interests of Florida Public Utilities' shareholders generally. Certain Florida Public Utilities executives have entered into agreements with Florida Public Utilities and Chesapeake that contain payment provisions that will be triggered by the merger. In addition, Florida Public Utilities' directors and executive officers have rights to indemnification and directors' and officers' liability insurance that will survive completion of the merger. Please see "The Merger — Interests of Florida Public Utilities' Directors and Executive Officers in the Merger" on page 64 for further information on these interests.

Accounting Treatment of the Merger (see page 70)

The merger will be accounted for using the acquisition method of accounting under accounting principles generally accepted in the United States of America with Chesapeake treated as the acquirer. Under the acquisition method of accounting, assets acquired and liabilities assumed will be recorded, as of completion of the merger, at their respective fair values and added to those of Chesapeake. The reported financial condition and results of operations of Chesapeake issued after completion of the merger will reflect Florida Public Utilities' balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of Florida Public Utilities.

Opinion of Chesapeake's Financial Advisor (see page 47)

On April 17, 2009, Robert W. Baird & Co. Incorporated, referred to as Baird, rendered its oral opinion to the Chesapeake board of directors to the effect that, as of April 17, 2009 and based upon and subject to the assumptions made, procedures followed, methodologies used, factors considered and limitations upon the review undertaken by Baird as set forth in its opinion, the exchange ratio pursuant to the merger agreement of 0.405 shares of Chesapeake common stock per share of Florida Public Utilities common stock was fair, from a financial point of view, to Chesapeake. This oral opinion was subsequently confirmed in writing by delivery of Baird's written opinion dated the same date. Baird was not requested to express, and did not express, any opinion with respect to any of the other terms, conditions, determinations or actions with respect to the merger. Additionally, Baird's opinion does not address the underlying business decision of Chesapeake to proceed with or effect the merger or the relative merits of the merger as compared to other transactions that may have been available to Chesapeake. The full text of Baird's opinion, which sets forth, among other things, the assumptions made, procedures followed, methodologies used, factors considered and limitations upon the review undertaken by Baird in connection with its opinion, is attached to this joint proxy statement/prospectus as Annex B. You are urged to read the opinion in its entirety. Baird's opinion is addressed to Chesapeake's board of directors, is directed only to the fairness, from a financial point of view, of the exchange ratio to Chesapeake and does not constitute a recommendation to any shareholder as to how any shareholder should vote with respect to any matter relating to the merger agreement or the merger. Baird has assumed no responsibility for updating or revising its opinion based on circumstances or events occurring after the date of its opinion. Chesapeake has agreed to pay Baird a fee for rendering its opinion, which is not contingent upon the successful completion of the proposed merger, and an additional transaction fee, all of which is only payable upon completion of the merger or receipt of a termination fee from Florida Public Utilities.

Opinion of Florida Public Utilities' Financial Advisor (see page 53)

On April 17, 2009, Houlihan Lokey Howard & Zukin Capital, Inc., referred to as Houlihan Lokey, rendered its oral opinion to the Florida Public Utilities board of directors (which was later confirmed in writing by delivery of Houlihan Lokey's written opinion dated the same date) to the effect that, as of April 17, 2009, the exchange ratio provided for in the proposed merger pursuant to the merger agreement was fair to holders of Florida Public Utilities common stock from a financial point of view. Houlihan Lokey's opinion was directed to the board of directors of Florida Public Utilities and only addressed the fairness, from a financial point of view, to the holders of Florida Public Utilities common stock of the exchange ratio provided for in the proposed merger pursuant to the merger agreement, and did not address any other aspect or implication of the proposed merger. The summary of Houlihan Lokey's opinion in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex C to this joint proxy statement/prospectus and sets forth the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. Neither Houlihan Lokey's written opinion nor the summary of its opinion and the related analyses set forth in this joint proxy statement/prospectus are intended to be, and they do not constitute, advice or a recommendation to any shareholder as to how such shareholder should act or vote with respect to any matter relating to the merger.

Selected Historical Financial Information

The following tables present selected historical financial information of Chesapeake and selected historical financial information of Florida Public Utilities. Such financial information is provided to assist you in your analysis of the financial aspects of the merger. The historical results included below and elsewhere in this document are not indicative of the future performance of Chesapeake, Florida Public Utilities or the combined company.

Chesapeake Historical Financial Information. The annual Chesapeake historical information is derived from the audited consolidated financial statements of Chesapeake as of and for each of the years ended December 31, 2004 through 2008. The Chesapeake information as of and for the six months ended June 30, 2009 and 2008 is derived from interim unaudited financial statements of Chesapeake and, in the opinion of Chesapeake's management, includes all normal and recurring adjustments that are considered necessary for the fair presentation of the results for the interim period. The information is only a summary and should be read in conjunction with Chesapeake's historical consolidated financial statements and related notes contained in the Chesapeake annual report on Form 10-K for the year ended December 31, 2008, and quarterly report on Form 10-Q for the period ended June 30, 2009, all of which are incorporated by reference in this joint proxy statement/prospectus, as well as other information that has been filed by Chesapeake with the SEC. See "Where You Can Find More Information" on page 127 for directions on how you can obtain copies of this information.

	For the Six Months Ended June 30,		For the Year Ended December 31,				
	2009	2008	2008	2007	2006(1)	2005	2004
	(In thousands, except per share data)						
Income Statement Information(2)							
Operating Revenues	$145,313	$169,330	$291,443	$258,286	$231,200	$229,485	$177,955
Operating Income	18,822	18,370	28,479	28,114	23,332	21,921	20,177
Net Income from Continuing Operations	9,399	9,393	13,607	13,218	10,748	10,699	9,686
Per Share Information(2)							
Basic Earnings per Common Share from Continuing Operations	$ 1.37	$ 1.38	$ 2.00	$ 1.96	$ 1.78	$ 1.83	$ 1.68
Diluted Earnings per Common Share from Continuing Operations	1.36	1.36	1.98	1.94	1.76	1.81	1.64
Dividends Declared per Common Share	0.620	0.600	1.21	1.18	1.16	1.14	1.12

	As of June 30,		As of December 31,				
	2009	2008	2008	2007	2006(1)	2005	2004
	(In thousands)						
Balance Sheet Information							
Net Property, Plant and Equipment	$287,016	$270,962	$280,671	$260,423	$240,825	$201,504	$177,053
Total Assets	350,289	400,911	385,795	381,557	324,585	295,980	241,938
Long-Term Debt(3)	92,969	69,837	93,079	70,912	78,706	63,920	69,099
Common Stockholders' Equity	130,027	125,471	123,073	119,576	111,152	84,757	77,962
Total Capitalization and Short-Term Financing	224,996	252,363	249,152	236,152	217,412	184,159	152,063

(1) Statement of Financial Accounting Standard (SFAS) No. 123R, *Share-Based Payment*, and SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — An Amendment of FASB Statements Nos. 87, 88, 106 and 132(R)*, were adopted in the year ended December 31, 2006; therefore, they were not applicable for the years prior to 2006.

(2) These amounts exclude the results of distributed energy and water services due to their reclassification to discontinued operations. Chesapeake closed its distributed energy operations in 2007. The assets of the water businesses were sold in 2004 and 2003.

(3) These amounts include the portion due within one year.

Florida Public Utilities Historical Financial Information. The annual Florida Public Utilities historical information is derived from the audited consolidated financial statements of Florida Public Utilities as of and for each of the years ended December 31, 2004 through 2008. The Florida Public Utilities information as of and for the six months ended June 30, 2009 and 2008 is derived from the interim unaudited financial statements of Florida Public Utilities and, in the opinion of Florida Public Utilities' management, includes all normal and recurring adjustments that are considered necessary for the fair presentation of the results for the interim period. The information is only a summary and should be read in conjunction with Florida Public Utilities' historical consolidated financial statements and related notes contained in the Florida Public Utilities annual report on Form 10-K for the year ended December 31, 2008, and quarterly report on Form 10-Q for the period ended June 30, 2009, all of which are incorporated by reference in this joint proxy statement/prospectus, as well as other information that has been filed by Florida Public Utilities with the SEC. See "Where You Can Find More Information" on page 127 for directions on how you can obtain copies of this information.

	For the Six Months Ended June 30,		For the Year Ended December 31,				
	2009	2008	2008	2007	2006(1)	2005	2004(2)
	(In thousands, except per share data)						
Income Statement Information(3)							
Operating Revenues	$80,755	$86,406	$168,548	$136,542	$134,781	$130,285	$110,131
Operating Income	4,470	5,153	9,109	8,821	10,177	10,637	8,986
Net Income	1,748	2,031	3,486	3,301	4,169	4,248	3,594
Per Share Information(3)							
Basic Earnings per Common Share	$ 0.28	0.33	$ 0.57	$ 0.54	$ 0.69	$ 0.71	$ 0.60
Diluted Earnings per Common Share	0.28	0.33	0.57	0.54	0.69	0.71	0.60
Dividends Declared per Common Share	0.2375	0.2300	0.47	0.45	0.43	0.41	0.40

	As of June 30,		As of December 31,				
	2009	2008	2008	2007	2006(1)	2005	2004(2)
	(In thousands)						
Balance Sheet Information							
Net Property, Plant and Equipment	$143,938	$140,640	$142,325	$138,372	$129,211	$123,061	$117,191
Total Assets	195,011	195,148	208,931	192,344	181,234	182,666	170,503
Long-Term Debt(4)	47,861	49,404	49,329	50,772	50,702	50,620	50,538
Common Stockholders' Equity	50,239	49,926	48,512	48,946	47,572	45,503	43,213
Total Capitalization and Short-Term Financing	98,700	112,459	111,188	111,440	102,340	106,281	100,176

(1) SFAS No. 123R, *Share-Based Payment*, and SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — An Amendment of FASB Statements Nos. 87, 88, 106 and 132(R)*, were adopted in the year ended December 31, 2006; therefore, they were not applicable for the years prior to 2006.

(2) On July 25, 2005, a three-for-two stock split in the form of a stock dividend was issued to the shareholders of record on July 15, 2005. All common share information has been restated to reflect the stock split for all periods presented.

(3) Florida Public Utilities did not report any discontinued operations in the periods presented.

(4) These amounts include the portion due within one year.

Selected Unaudited Pro Forma Condensed Combined Financial Information

The merger will be accounted for under the acquisition method of accounting with Chesapeake treated as the acquirer, which means the assets acquired and liabilities assumed will be recorded, as of completion of the merger, at their respective fair values and added to those of Chesapeake. For a more detailed description of acquisition accounting, see "The Merger — Accounting Treatment" on page 70.

The selected unaudited pro forma condensed combined financial information presented below gives effect to the merger based on the assumption that the merger occurred at the beginning of the periods presented for income statement and per share information and at the date of the balance sheet for balance sheet information and is for illustrative purposes only. The selected unaudited pro forma condensed combined financial information may have been different had the companies actually been combined. The selected unaudited pro forma condensed combined financial information does not reflect the effect of asset dispositions, if any, or revenue, cost or other operating synergies that may result from the merger, nor does it reflect the effects of any financing, liquidity or other balance sheet repositioning that may be undertaken in connection with or subsequent to the merger. You should not rely on the selected unaudited pro forma condensed combined financial information as being indicative of the historical results that would have occurred had the companies been combined or the future results that may be achieved after the merger. The following selected unaudited pro forma condensed combined financial information (i) has been derived from and should be read in conjunction with the Unaudited Pro Forma Condensed Combined Financial Statements and related notes included in this joint proxy statement/prospectus beginning on page 87 and (ii) should be read in conjunction

with the historical consolidated financial statements of Chesapeake and Florida Public Utilities incorporated by reference in this joint proxy statement/prospectus.

	For the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
	(In thousands, except per share data)	
Pro Forma Income Statement Information		
Operating Revenues	$221,461	$451,292
Operating Income	25,270	38,278
Net Income	12,337	17,472
Pro Forma Per Share Information		
Basic Earnings per Common Share	$ 1.32	$ 1.88
Diluted Earnings per Common Share	1.31	1.86
Dividends Declared per Common Share(1)	0.620	1.21

	As of June 30, 2009 (In thousands)
Pro Forma Balance Sheet Information	
Net Property, Plant and Equipment	$438,135
Total Assets	578,480
Long-Term Debt(2)	146,170
Common Stockholders' Equity	200,271
Total Capitalization and Short-Term Financing	348,441

(1) After the merger, it is currently expected that Chesapeake will continue the dividend policy of Chesapeake in effect at the time of the merger.

(2) The amount includes the portion due within one year.

Unaudited Comparative Per Share Information

The following tables set forth selected historical per share information of Chesapeake and Florida Public Utilities and unaudited pro forma combined per share information after giving effect to the merger between Chesapeake and Florida Public Utilities assuming that 0.405 shares of Chesapeake common stock had been issued in exchange for each outstanding share of Florida Public Utilities common stock at the beginning of the periods presented. You should read this information in conjunction with the selected historical financial information included elsewhere in this joint proxy statement/prospectus and the historical financial statements of Chesapeake and Florida Public Utilities and related notes that are incorporated by reference in this joint proxy statement/prospectus. The unaudited pro forma combined per share information is derived from, and should be read in conjunction with, the Unaudited Pro Forma Condensed Combined Financial Statements and related notes included in this joint proxy statement/prospectus beginning on page 87. The historical per share information is derived from audited financial statements as of and for the year ended December 31, 2008 and unaudited financial statements as of and for the period ended June 30, 2009 in the case of each of Chesapeake and Florida Public Utilities. The unaudited pro forma Chesapeake per share equivalents are calculated by combining the Chesapeake historical share amounts with pro forma amounts from Florida Public Utilities, based on the exchange ratio of 0.405.

Chesapeake Historical Financial Data:

	For the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
Earnings per Common Share — Basic	$ 1.37	$2.00
Earnings per Common Share — Diluted	1.36	1.98
Dividends Declared per Common Share	0.620	1.21

	As of June 30, 2009	As of December 31, 2008
Book Value per Common Share	$18.92	$18.03

Florida Public Utilities Historical Financial Data:

	For the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
Earnings per Common Share — Basic	$ 0.28	$0.57
Earnings per Common Share — Diluted	0.28	0.57
Dividends Declared per Common Share	0.2375	0.47

	As of June 30, 2009	As of December 31, 2008
Book Value per Common Share	$8.20	$7.95

Chesapeake Unaudited Pro Forma Combined Financial Data:

The Chesapeake unaudited pro forma combined financial data has been prepared for the benefit of both companies' shareholders. The data was prepared on the basis of the combined companies' pro forma results and reflecting the share exchange ratio of 0.405.

	For the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
Earnings per Common Share — Basic	$ 1.32	$1.88
Earnings per Common Share — Diluted	1.31	1.86
Dividends Declared per Common Share(1)	0.620	1.21

	As of June 30, 2009
Book Value per Common Share	$21.42

(1) After the merger, it is currently expected that Chesapeake will continue the dividend policy of Chesapeake in effect at the time of the merger.

Florida Public Utilities Equivalent Pro Forma Combined Financial Data:

The Florida Public Utilities equivalent pro forma financial data was prepared on the basis of the combined companies' pro forma results and reflecting the share exchange ratio of 0.405.

	For the Six Months Ended June 30, 2009	For the Year Ended December 31, 2008
Earnings per Common Share — Basic	$ 0.53	$0.76
Earnings per Common Share — Diluted	0.53	0.75
Dividends Declared per Common Share(1)	0.251	0.49

	As of June 30, 2009
Book Value per Common Share	$8.67

(1) After the merger, it is currently expected that Chesapeake will continue the dividend policy of Chesapeake in effect at the time of the merger.

Comparative Per Share Market Price and Dividend Information

Chesapeake common stock is listed on the New York Stock Exchange under the ticker symbol "CPK," and Florida Public Utilities common stock is listed on the NYSE Amex under the ticker symbol "FPU." The following table shows, for the calendar quarters indicated, based on published financial sources: (1) the high and low sale prices of shares of Chesapeake and Florida Public Utilities common stock as reported,

respectively, on the New York Stock Exchange Composite Transaction Tape and the NYSE Amex and (2) the cash dividends declared per share of Chesapeake and Florida Public Utilities common stock.

	Chesapeake Common Stock			Florida Public Utilities Common Stock		
	High	Low	Dividends	High	Low	Dividends
2007						
First Quarter	$31.10	$28.85	$0.290	$13.50	$11.90	$0.1075
Second Quarter	35.58	29.92	0.295	12.91	11.01	0.1125
Third Quarter	37.25	28.00	0.295	12.49	11.15	0.1125
Fourth Quarter	36.38	29.59	0.295	12.83	11.24	0.1125
2008						
First Quarter	$33.60	$27.21	$0.295	$12.35	$10.75	$0.1125
Second Quarter	31.88	25.02	0.305	12.25	10.34	0.1175
Third Quarter	34.84	24.65	0.305	13.12	11.40	0.1175
Fourth Quarter	34.66	21.93	0.305	13.09	8.00	0.1175
2009						
First Quarter	$32.35	$22.02	$0.305	$13.15	$ 8.37	$0.1175
Second Quarter	34.55	27.62	0.315	14.73	9.05	0.1200

Recent Closing Prices

The following table sets forth the closing prices per share of Chesapeake common stock and Florida Public Utilities common stock as reported, respectively, on the New York Stock Exchange Composite Transaction Tape and the NYSE Amex on April 17, 2009, the last full trading day prior to the announcement of the merger agreement, and August 24, 2009, a recent practicable date prior to the mailing of this joint proxy statement/ prospectus to Chesapeake's and Florida Public Utilities' shareholders. This table also sets forth the equivalent price per share of Florida Public Utilities common stock on those dates. The equivalent price per share is equal to the closing price of a share of Chesapeake common stock on that date multiplied by 0.405, the exchange ratio in the merger. These prices will fluctuate prior to the special meetings and the merger, and shareholders are urged to obtain current market quotations prior to making any decision with respect to the merger.

Date	Chesapeake Common Stock	Florida Public Utilities Common Stock	Florida Public Utilities Common Stock per Share Equivalent
April 17, 2009	$29.65	$10.40	$12.01
August 24, 2009	32.47	13.29	13.15

Although dividends are subject to future approval and declaration by Chesapeake's and Florida Public Utilities' respective boards of directors, Chesapeake and Florida Public Utilities each currently plan to continue to pay regular dividends on their common stock until closing of the merger. The dividend policy following the merger will be determined by Chesapeake's board of directors but is currently expected to remain consistent with past practice.

RISK FACTORS

Risks Relating to the Merger

In addition to the other information included and incorporated by reference in this joint proxy statement/ prospectus, Chesapeake and Florida Public Utilities shareholders should carefully consider the matters described below to determine whether, in the case of the Chesapeake shareholders, to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger and, in the case of the Florida Public Utilities shareholders, to approve the merger agreement and the merger.

The anticipated benefits of combining the companies may not be realized.

Chesapeake and Florida Public Utilities entered into the merger agreement with the expectation that the merger would result in various benefits, including, among other things, synergies, cost savings and operating efficiencies. Achieving these synergies, cost savings and operating efficiencies cannot be assured and failure to achieve these benefits will adversely affect expected future performance of the combined company. In addition, the regulatory agencies that have jurisdiction over certain of the combined company's businesses and operations may require it to pass on some of the achieved cost savings to ratepayers.

The combined company may be unable to successfully integrate operations.

The merger involves the integration of two companies that have previously operated independently. The difficulties of combining the companies' operations include, among other things:

- the necessity of coordinating geographically separated organizations, systems and facilities;
- combining the best practices of the two companies, including operations, financial and administrative functions; and
- integrating personnel with diverse business backgrounds and different contractual terms and conditions of employment.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the combined company's businesses and the loss of key personnel. The combined company will be subject to employee workforce factors, including loss of employees, availability of qualified personnel, collective bargaining agreements with unions and work stoppages that could affect the business and financial condition of the combined company. The respective management teams of Chesapeake and Florida Public Utilities will dedicate substantial efforts to integrating the businesses. Such efforts could divert management's focus and resources from other strategic opportunities during the integration process. The diversion of management's attention and any delays or difficulties encountered in connection with the merger and the integration of the two companies' operations could result in the disruption of the combined company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect the combined company's ability to maintain relationships with customers, suppliers, employees and others with whom it has business dealings.

The combined company may incur transaction, integration and merger-related costs that may not be recoverable in rates and that may be in excess of the currently estimated costs, thereby adversely affecting the projected accretive impact to earnings of the merger.

Chesapeake and Florida Public Utilities expect to incur costs associated with consummating the merger and integrating the operations of the two companies, as well as transaction fees of approximately $2.9 million in the case of Chesapeake and $2.6 million in the case of Florida Public Utilities (in each case, excluding change in control and stay bonus payments and costs incurred in connection with any shareholder litigation related to the merger). The amount of transaction fees expected to be incurred by each of Chesapeake and Florida Public Utilities are preliminary estimates and are subject to change. Chesapeake currently estimates integration costs associated with the merger to be approximately $1 million over the first two years after completion of the merger. Chesapeake is in the early stages of assessing the magnitude of these costs, and,

therefore, these estimates may change substantially, and additional unanticipated costs may be incurred in the integration of the businesses of Chesapeake and Florida Public Utilities. The costs related to the transaction and integration will not be included as a component of the purchase price but instead will be expensed as incurred as a cost of ongoing operations until such time as Chesapeake deems appropriate to defer these costs under the existing accounting standards based on regulatory developments. Although Chesapeake and Florida Public Utilities expect that the elimination of duplicate costs and realization of other efficiencies related to the integration of the businesses may offset these incremental costs, any actual efficiencies to be achieved are not fully determinable at this time. In addition, the approval of the deferral of these costs as a regulatory asset and any future rate recovery of the merger-related costs, including costs related to the transaction and integration of the companies and any associated premium, cannot be assured.

The combined company will record goodwill that may not be approved as a deferred regulatory asset and that could become impaired and adversely affect the combined company's operating results.

The merger will be accounted for using the acquisition method of accounting under accounting principles generally accepted in the United States of America with Chesapeake treated as the acquirer. Under the acquisition method of accounting, the assets acquired and liabilities assumed will be recorded, as of completion of the merger, at their respective fair values and added to those of Chesapeake. The excess of the purchase price over those fair values will be recorded as goodwill. Chesapeake is seeking regulatory approval to treat the goodwill as an acquisition adjustment for which it would receive future rate recovery.

To the extent any portion of goodwill that cannot be treated as an acquisition adjustment becomes impaired, the combined company may be required to incur material charges relating to such impairment. Such a potential impairment charge could have a material impact on the combined company's operating results. Additionally, the treatment of goodwill as an acquisition adjustment and the associated future rate recovery of this acquisition adjustment cannot be determined at this time.

The merger may cause dilution to Chesapeake's earnings per share and, accordingly, adversely impact the market price of Chesapeake common stock.

Although the merger is expected to be earnings neutral or slightly accretive in 2010 and meaningfully accretive in 2011, this accretion may not be achieved. The current expectations with respect to the effect of the merger on earnings are based upon preliminary estimates and are subject to change. Chesapeake and Florida Public Utilities could also encounter other transaction and integration-related costs or other factors such as the failure to realize any benefit from synergies anticipated in the merger. All of these factors could adversely impact the market price of Chesapeake common stock.

A potential downgrade in Chesapeake's credit rating as a result of the merger could adversely affect the combined company's access to capital markets.

Each of Chesapeake's and Florida Public Utilities' ability to obtain adequate and cost-effective capital depends on their financial performance and the liquidity of financial markets. A downgrade following the merger in Chesapeake's current credit ratings could adversely affect the combined company's access to capital markets, as well as its cost of capital.

Debt covenant obligations, if triggered because of the merger, may affect the combined company's financial condition.

Chesapeake's and Florida Public Utilities' long-term debt obligations and committed short-term lines of credit contain financial covenants related to debt-to-capital ratios and interest-coverage ratios. Failure to comply with any of these covenants as a result of the merger or otherwise could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations or the inability to borrow under certain credit agreements. Any such acceleration would cause a material adverse change in the combined company's financial condition.

Failure to complete the merger could adversely impact the stock prices and the future business and financial results of Chesapeake and Florida Public Utilities because of, among other things, the market disruption that would occur as a result of uncertainties relating to a failure to complete the merger.

There is no assurance that Chesapeake and Florida Public Utilities will obtain the necessary shareholder approvals to complete the merger or satisfy the other conditions to the completion of the merger. If the merger is not completed for any reason, Chesapeake and Florida Public Utilities will be subject to several risks, including the following:

- Florida Public Utilities may be required to pay Chesapeake the termination fee (see "The Merger Agreement — Termination of Merger Agreement" beginning on page 84);
- the respective prices of the common shares of Chesapeake and Florida Public Utilities may decline to the extent that the current market price of such stock reflects a market assumption that the merger will be completed and that the related benefits and synergies will be realized, or as a result of the market's perceptions that the merger was not consummated due to an adverse change in Chesapeake's or Florida Public Utilities' business; and
- the respective businesses of Chesapeake and Florida Public Utilities may be harmed, and the prices of their stock may decline, to the extent that employees, customers, suppliers and others believe that the companies cannot compete in the marketplace as effectively without the merger or otherwise remain uncertain about the companies' future prospects in the absence of the merger.

The value of Chesapeake shares to be received in the merger will fluctuate; common shareholders of Florida Public Utilities may receive more or less value depending on fluctuations in the price of Chesapeake common stock.

The number of shares of Chesapeake common stock issued in the merger for each share of Florida Public Utilities common stock is fixed. The market prices of Chesapeake common stock and Florida Public Utilities common stock may vary from their market prices at the date of this joint proxy statement/prospectus and at the date of the special meetings. Because the exchange ratio will not be adjusted to reflect any changes in the market value of Chesapeake common stock, the market value of Chesapeake common stock issued in the merger may be higher or lower than the value of such shares on earlier dates. During the 12-month period ending on August 24, 2009, a recent practical date prior to the mailing of this joint proxy statement/ prospectus, Chesapeake common stock traded in a range from a low of $21.93 to a high of $35.00 and ended that period at $32.47. During that time, Florida Public Utilities common stock traded in a range from a low of $8.00 to a high of $15.00 and ended that period at $13.29. See "Summary — Comparative Per Share Market Price and Dividend Information" on page 17 for more detailed share price information.

Certain directors and executive officers of Florida Public Utilities have interests different from Florida Public Utilities shareholders generally that you should consider in deciding your vote regarding the merger.

Certain directors and executive officers of Florida Public Utilities may have interests that differ from, or are in addition to, Florida Public Utilities shareholders interests. Following the completion of the merger, John T. English, Chairman, President and Chief Executive Officer of Florida Public Utilities, will be a consultant to Chesapeake, as he entered into a consulting agreement with Chesapeake concurrently with the execution of the merger agreement that becomes effective upon consummation of, and contains certain payment provisions that will be triggered by, the merger in accordance with its terms that are described under "The Merger — Interests of Florida Public Utilities' Directors and Executive Officers in the Merger." In addition, Charles L. Stein, Chief Operating Officer and Senior Vice President of Florida Public Utilities, and George M. Bachman, Chief Financial Officer, Secretary and Treasurer of Florida Public Utilities, have entered into amended and restated employment agreements with Chesapeake and Florida Public Utilities that also become effective upon consummation of, and contain certain payment provisions that will be triggered by, the merger in accordance with their terms that are also described under "The Merger — Interests of Florida Public Utilities' Directors and Executive Officers in the Merger." Two directors from Florida Public Utilities' board of directors will be

appointed to Chesapeake's board of directors after the merger. Florida Public Utilities directors and officers will be entitled to continuation of indemnification and insurance arrangements under the merger agreement as described under "The Merger — Interests of Florida Public Utilities' Directors and Executive Officers in the Merger." You should be aware of the interests described under "The Merger — Interests of Florida Public Utilities' Directors and Executive Officers in the Merger" when you consider your board of directors' recommendation that you vote in favor of the merger.

A pending shareholder suit could delay or prevent the closing of the merger or otherwise adversely impact the business and operations of Florida Public Utilities and Chesapeake.

On May 8, 2009, a putative class action lawsuit purportedly on behalf of the shareholders of Florida Public Utilities was filed in Palm Beach County, Florida against Florida Public Utilities, each of its directors and Chesapeake. The complaint alleges, among other things, that approval of the proposed merger by the directors of Florida Public Utilities constituted a breach of their fiduciary duties. The suit seeks to enjoin completion of the merger. See "The Merger — Shareholder Litigation Related to the Merger" on page 72. No assurances can be given as to the outcome of this lawsuit, including the costs associated with defending this lawsuit or any other liabilities or costs the parties may incur in connection with the litigation or settlement of this lawsuit. Furthermore, one of the conditions to closing the merger is that there are no injunctions issued by any court preventing the completion of the transactions. No assurance can be given that this lawsuit will not result in such an injunction being issued which could prevent or delay the closing of the transactions contemplated by the merger agreement.

Chesapeake and Florida Public Utilities will be subject to business uncertainties and contractual restrictions while the merger is pending which could adversely affect their businesses.

Uncertainty about the effect of the merger on employees and customers may have an adverse effect on Chesapeake and Florida Public Utilities and, consequently, on the combined company. These uncertainties may impair Chesapeake's and Florida Public Utilities' ability to attract, retain and motivate key personnel until the merger is consummated and for a period of time thereafter. These uncertainties also could cause customers, suppliers and others that deal with Chesapeake and Florida Public Utilities to seek to change existing business relationships. Employee retention may be particularly challenging during the pendency of the merger, as employees may experience uncertainty about their future roles with the combined company. If key employees depart, the combined company's business could be harmed. In addition, the merger agreement restricts Chesapeake and Florida Public Utilities, without the other party's consent, from making certain acquisitions and taking other specified actions until the merger occurs or the merger agreement terminates. These restrictions may prevent Chesapeake and Florida Public Utilities from pursuing otherwise attractive business opportunities and making other changes to their businesses prior to completion of the merger or termination of the merger agreement.

Financial Risks Relating to the Businesses of the Combined Company

After consummation of the merger, the combined company will be subject to many financial risks and uncertainties. Some of these risks are discussed below. For a discussion of additional financial risks and uncertainties that you should consider, see the risk factors sections of the respective annual reports on Form 10-K for the year ended December 31, 2008 for Chesapeake and Florida Public Utilities, as updated by their respective quarterly reports on Form 10-Q for the period ended June 30, 2009, all of which are incorporated by reference in this joint proxy statement/prospectus.

Instability and volatility in the financial markets could have an adverse impact on the combined company's growth strategy.

Chesapeake's business strategy includes the continued pursuit of growth, both organically and through acquisitions. To the extent that the combined company does not generate sufficient cash from operations, it may incur additional indebtedness to finance its growth. The turmoil experienced in the credit markets during 2008 and 2009 and its potential impact on the liquidity of major financial institutions may have an adverse

effect on the combined company's ability to fund its business strategy through borrowings, under either existing or newly created arrangements in the public or private markets on terms the combined company believes to be reasonable. Specifically, Chesapeake relies on access to both short-term and longer-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from its operations. Currently, $45 million of the total $100 million of short-term lines of credit utilized to satisfy Chesapeake's short-term financing requirements are discretionary, uncommitted lines of credit. Chesapeake utilizes discretionary lines of credit to reduce the cost associated with these short-term financing requirements. If the combined company is not able to access capital at competitive rates, its ability to implement its strategic plan, undertake improvements and make other investments required for its future growth may be limited.

Further changes in economic conditions and interest rates may adversely affect the combined company's results of operations and cash flows.

A continued downturn in the economies of the regions in which the combined company operates might adversely affect its ability to increase its customer base and cash flows at historical rates. Further, an increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates the combined company charges its utility customers, could adversely affect future earnings. An increase in short-term interest rates would adversely affect results of operations, which depend on short-term lines of credit to finance accounts receivable and storage gas inventories, and to temporarily finance capital expenditures.

Current market conditions have had an adverse impact on the return on plan assets for Chesapeake's and Florida Public Utilities' respective pension plans, which may require significant additional funding and adversely affect the combined company's cash flows.

Each of Chesapeake and Florida Public Utilities has a pension plan that has been closed to new employees. The costs of providing benefits and related funding requirements of these plans are subject to changes in the market value of the assets that fund the plans. As a result of the extreme volatility and disruption in the domestic and international equity and bond markets, during 2008 Chesapeake's pension plan experienced a decline of $4.3 million in its asset values and Florida Public Utilities' pension plan experienced a decline of $10.9 million in its asset values. The funded status of the plans and the related costs reflected in the combined company's financial statements are affected by various factors that are subject to an inherent degree of uncertainty, particularly in the current economic environment. Continued losses of asset values may necessitate accelerated funding of the plans in the future to meet minimum federal government requirements. Continued downward pressure on the asset values of the respective pension plans may require the combined company to fund obligations earlier than originally planned, which would have an adverse impact on its cash flows from operations, decrease borrowing capacity and increase interest expense.

Failure to obtain waivers of certain existing note covenants relating to the merger from holders of Chesapeake's senior notes would force Chesapeake to repurchase the notes using its lines of credit or new financing which could negatively impact the future business and financial results of the combined company.

Chesapeake's long-term debt includes unsecured fixed-rate senior notes totaling approximately $93 million. These notes contain covenants which prohibit Chesapeake from engaging in certain types of mergers and any subsidiary of Chesapeake from incurring or becoming liable for any secured indebtedness. Florida Public Utilities, which will become a wholly owned subsidiary of Chesapeake as a result of the merger, currently has secured indebtedness which will remain outstanding following the merger. Accordingly, Chesapeake is seeking to obtain waivers from the note holders relating to these covenants in connection with the merger. This will require the written consent of the holders of at least 66⅔% of the outstanding principal amount of the senior notes. A failure to obtain the required consents could result in an event of default upon consummation of the merger, and therefore, accelerate the underlying debt obligations of the senior notes. There can be no assurance that Chesapeake will obtain the required level of consents from its note holders. In the event it is unable to obtain the required consents, Chesapeake would repay the senior notes from existing short-term lines

of credit or through new financing vehicles, which could negatively impact the combined company's ability to fund its business strategy and results of operations, cash flows and financial condition.

The combined company's operations will be exposed to market risks, beyond its control, which could adversely affect its financial results and capital requirements.

Chesapeake's natural gas supply and supply management services operations and its propane wholesale marketing operations, conducted through wholly owned subsidiaries, are subject to market risks beyond its control, including market liquidity and commodity price volatility. Although Chesapeake maintains a risk management policy, the combined company may not be able to offset completely the price risk associated with volatile commodity prices, which could lead to volatility in its earnings. Physical trading also has price risk on any net open positions at the end of each trading day, as well as volatility resulting from: (i) intra-day fluctuations of natural gas and/or propane prices, and (ii) daily price movements between the time natural gas and/or propane is purchased or sold for future delivery and the time the related purchase or sale is hedged. The determination of Chesapeake's net open position at the end of any trading day requires it to make assumptions as to future circumstances, including the use of natural gas and/or propane by its customers in relation to its anticipated market positions. Because the price risk associated with any net open position at the end of such day may increase if the assumptions are not realized, Chesapeake reviews these assumptions daily. Net open positions may increase volatility in the combined company's financial condition or results of operations if market prices move in a significantly favorable or unfavorable manner, because the timing of the recognition of profits or losses on the hedges for financial accounting purposes usually does not match up with the timing of the economic profits or losses on the item being hedged. This volatility may occur, with a resulting increase or decrease in earnings or losses, even though the expected profit margin is essentially unchanged from the date the transactions were consummated.

The combined company's results of operations, cash flows and financial position could be adversely affected if it is unable to obtain adequate and timely rate relief and pricing changes to offset the effects of inflation.

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on capital investments and returns, Chesapeake and Florida Public Utilities seek rate relief from regulatory commissions for regulated operations and closely monitor the returns of their unregulated business operations. There can be no assurance that the combined company will be able to obtain adequate and timely rate relief to offset the effects of inflation. To compensate for fluctuations in propane gas prices, Chesapeake and Florida Public Utilities adjust their propane selling prices to the extent allowed by the market. There can be no assurance, however, that the combined company will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas.

Chesapeake's energy marketing subsidiaries have credit risk and credit requirements that may adversely affect the combined company's results of operations, cash flows and financial condition.

Chesapeake's energy marketing subsidiaries extend credit to counterparties and continually monitor and manage collections aggressively. Each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counterparty to such a transaction fails to perform, and any underlying collateral is inadequate, the combined company could experience financial losses.

These subsidiaries are also dependent upon the availability of credit to buy propane and natural gas for resale or to trade. If financial market conditions decline generally, or the financial condition of these subsidiaries or of the combined company declines, then the cost of credit available to these subsidiaries could increase. If credit is not available, or if credit is more costly, the combined company's results of operations, cash flows and financial condition may be adversely affected.

Operational Risks Relating to the Businesses of the Combined Company

After consummation of the merger, the combined company will be subject to many operational risks and uncertainties. Some of these risks are discussed below. For a discussion of additional operational risks and uncertainties that you should consider, see the risk factors sections of the respective annual reports on Form 10-K for the year ended December 31, 2008 for Chesapeake and Florida Public Utilities, as updated by their respective quarterly reports on Form 10-Q for the period ended June 30, 2009, all of which are incorporated by reference in this joint proxy statement/prospectus.

Fluctuations in weather may adversely affect the combined company's results of operations, cash flows and financial condition.

Chesapeake's and Florida Public Utilities' natural gas and propane distribution operations are sensitive to fluctuations in weather conditions, which directly influence the volume of natural gas and propane sold and delivered. A significant portion of their respective natural gas and propane distribution revenues is derived from the sales and deliveries of natural gas and propane to residential and commercial heating customers during the five-month peak heating season (November through March). If the weather is warmer than normal, Chesapeake and Florida Public Utilities sell and deliver less natural gas and propane to customers, and earn less revenue. In addition, hurricanes or other extreme weather conditions could damage production or transportation facilities, which could result in decreased supplies of natural gas, propane and electricity; increased supply costs; and higher prices for customers.

Florida Public Utilities' electric operations, while generally less weather sensitive than natural gas and propane sales, are also affected by variations in general weather conditions and unusually severe weather. Mild winter weather in Florida can be expected to adversely impact results from the combined company's electric operations.

The amount and availability of natural gas and propane supplies are difficult to predict; a substantial reduction in available supplies could reduce the combined company's earnings in those segments.

Natural gas and propane production can be affected by factors beyond the combined company's control, such as weather and refinery closings. If the combined company is unable to obtain sufficient natural gas and propane supplies to meet demand, results in those segments may be adversely affected.

The combined company will rely on a limited number of natural gas, electric and propane suppliers, the loss of which could materially adversely affect its financial condition and results of operations.

Chesapeake's natural gas distribution and marketing operations and propane operations have entered into various agreements with suppliers to purchase natural gas and propane to serve their customers. Florida Public Utilities' natural gas and electric operations have entered into several long-term supply and transportation contracts to meet the demands of its customers. The loss of any significant suppliers or the combined company's inability to renew these contracts at favorable terms upon their expiration could significantly affect the combined company's ability to serve its customers and have a material adverse impact on its financial condition and results of operations.

The combined company will rely on having access to interstate natural gas pipelines' transportation and storage capacity; a substantial disruption or lack of growth in these services may impair the combined company's ability to meet customers' existing and future requirements.

In order to meet existing and future customer demands for natural gas, the combined company must acquire both sufficient natural gas supplies and interstate pipeline and storage capacity to serve such requirements. The combined company must contract for reliable and adequate delivery capacity for its distribution systems while considering the dynamics of the interstate pipeline and storage capacity market, its own on-system resources, as well as the characteristics of its markets. The combined company's financial condition and results of operations would be materially and adversely affected if the future availability of upstream interstate pipeline and storage capacity were insufficient to meet future customer demands for natural

gas. Currently, all of Florida Public Utilities' natural gas is transported through one pipeline system. Any interruption to that system could adversely affect the combined company's ability to meet the demands of its customers and the earnings of the combined company.

Commodity price changes may affect the operating costs and competitive positions of the combined company's natural gas, electric and propane distribution operations, which may adversely affect its results of operations, cash flows and financial condition.

Natural Gas. Higher natural gas prices can significantly increase the cost of gas billed to the combined company's customers. Such cost increases will generally have no immediate effect on revenues and net income because of regulated gas recovery mechanisms. The combined company's net income, however, may be reduced by higher expenses that it may incur for uncollectible customer accounts and by lower volumes of natural gas deliveries when customers reduce their consumption. Therefore, increases in the price of natural gas can affect the combined company's operating cash flows and the competitiveness of natural gas as an energy source.

Propane. Propane costs are subject to volatile changes as a result of product supply or other market conditions, including economic and political factors affecting crude oil and natural gas supply or pricing. Such cost changes can occur rapidly and can affect profitability. There is no assurance that the combined company will be able to pass on propane cost increases fully or immediately, particularly when propane costs increase rapidly. Therefore, average retail sales prices can vary significantly from year-to-year as product costs fluctuate in response to propane, fuel oil, crude oil and natural gas commodity market conditions. In addition, in periods of sustained higher commodity prices, declines in retail sales volumes due to reduced consumption and increased amounts of uncollectible accounts may adversely affect net income.

Electric. Increases in the cost of coal and other commodity fuels can significantly increase the cost of electricity billed to the combined company's customers. Such cost increases will generally have no immediate effect on revenues and net income because of the regulated electric recovery mechanisms. The combined company's net income, however, may be reduced by higher expenses that it may incur for uncollectible customer accounts and by lower volumes of electricity deliveries when customers reduce their consumption. Therefore, increases in the cost of coal and other commodity fuels can affect the combined company's operating cash flows and the competitiveness of electricity as an energy source.

The combined company's propane inventory will be subject to inventory risk, which may adversely affect its results of operations and financial condition.

The combined company's propane distribution operations will own bulk propane storage facilities. The combined company will purchase and store propane based on several factors, including inventory levels and the price outlook. The combined company may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and, as such, its unit price is subject to volatile fluctuations in response to changes in supply or other market conditions. The combined company will have no control over these market conditions. Consequently, the unit price of the propane that the combined company purchases can change rapidly over a short period of time. The market price for propane could fall below the price at which the combined company made the purchases, which would adversely affect its profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs as required by generally accepted accounting principles if the market price of propane falls below the combined company's weighted average cost of inventory, and therefore, could adversely affect net income.

Operating events affecting the public safety and reliability of the combined company's natural gas and electric distribution systems could adversely affect its results of operations, cash flows and financial condition.

The combined company's natural gas distribution business will be exposed to operational events, such as major leaks, mechanical problems and accidents, that could affect the public safety and reliability of its natural

gas distribution systems, significantly increase costs and cause loss of customer confidence. The occurrence of any such operational events could adversely affect the combined company's results of operations, cash flows and financial condition. If the combined company is unable to recover from customers, through the regulatory process, all or some of these costs and its authorized rate of return on these costs, this could adversely affect the combined company's results of operations, cash flows and financial condition.

The combined company's electric operations will be subject to various operational risks, including accidents, outages, equipment breakdowns or failures, or operations below expected levels of performance or efficiency. Problems such as the breakdown or failure of electric equipment or processes and interruptions in service which would result in performance below affected levels of output or efficiency, particularly if extending for prolonged periods of time, could have a material adverse effect on the combined company's financial condition and results of operations.

The combined company may lose customers to competitors, which could adversely affect the combined company's results of operation, cash flows and financial condition.

Natural Gas. In the combined company's natural gas supply and supply management services operations in Delaware, Florida and Maryland, it will compete with third-party suppliers to sell gas to commercial and industrial customers. In the combined company's natural gas transportation and distribution operations, it will compete with interstate pipelines when its transmission and/or distribution customers are located close enough to a competing pipeline to make direct connections economically feasible. Failure to retain and grow the combined company's customer base in its natural gas operations would have an adverse effect on its financial condition and results of operations.

Propane Gas. The combined company's propane distribution operations will compete with other propane distributors, primarily on the basis of service and price. Some of the combined company's competitors will have significantly greater resources. The combined company's ability to grow the propane distribution business is contingent upon capturing additional market share, successfully penetrating new service territories, and successfully utilizing pricing programs that retain and grow its customer base. Failure to retain and grow the combined company's customer base in its propane gas operations would have an adverse effect on its results of operations, cash flows and financial condition.

The combined company's propane wholesale marketing operations will compete against various marketers, many of which have significantly greater resources and are able to obtain price or volumetric advantages.

Electric. While there is active wholesale power sales competition in Florida, the retail electric business has remained substantially free from direct competition. Changes in the competitive environment caused by legislation, regulation, market conditions or initiatives of other electric power providers, particularly with respect to retail competition, could adversely affect the combined company's results of operations, cash flows and financial condition. To the extent competitive pressures increase and the pricing and sale of electricity assumes more of the characteristics of a commodity business, the economics of the combined company's electric operating segment could change. In addition, regulatory changes may increase access to electricity transmission grids by utility and non-utility purchasers and sellers of electricity, thus potentially resulting in a significant number of additional competitors.

Chesapeake's use of derivative instruments may adversely affect the combined company's results of operations.

Fluctuating commodity prices may affect the combined company's earnings and financing costs because Chesapeake's propane distribution and wholesale marketing segments use derivative instruments, including forwards, swaps and puts, to hedge price risk. In addition, Chesapeake has utilized in the past, and the combined company may decide, after further evaluation, to continue to utilize derivative instruments to hedge price risk for its Delaware and Maryland natural gas distribution divisions, as well as its natural gas supply operations. If the combined company purchases derivative instruments that are not properly matched to its exposure, its results of operations, cash flows and financial conditions may be adversely affected.

The combined company's businesses will be capital intensive and the costs of capital projects may be significant.

The combined company's businesses will be capital intensive and require significant investments in internal infrastructure projects. The combined company's results of operations and financial condition could be adversely affected if it is unable to manage such capital projects effectively or if it does not receive full recovery of such capital costs in future regulatory proceedings.

Operational interruptions to the combined company's gas transmission and gas and electric distribution activities, caused by accidents, malfunctions, severe weather (such as a major hurricane), a pandemic or acts of terrorism, could adversely impact its results of operations, cash flows and financial condition.

Inherent in gas transmission and gas and electric distribution activities are a variety of hazards and operational risks, such as leaks, ruptures, fires, explosions and mechanical problems. If they are severe enough or if they lead to operational interruptions, they could cause substantial financial losses. In addition, these risks could result in the loss of human life, significant damage to property, environmental damage and impairment of the combined company's operations. The location of pipeline, storage, transmission and distribution facilities near populated areas, including residential areas, commercial business centers, industrial sites and other public gathering places, could increase the level of damages resulting from these risks. The occurrence of any of these events could adversely affect the combined company's results of operations, cash flows and financial condition.

The combined company will be at risk of its franchise agreements not being renewed.

The combined company will hold franchises in each of the incorporated municipalities that require franchise agreements in order to provide natural gas and electricity. Chesapeake and Florida Public Utilities are currently in negotiations for franchises with certain municipalities for new service areas along with renewing some existing franchises. Ongoing financial results would be adversely impacted from the loss of service to certain operating areas within the combined company's electric or gas territories because of nonrenewal of the respective franchise agreements.

Regulatory and Legal Risks Relating to the Businesses of the Combined Company

After consummation of the merger, the combined company will be subject to many regulatory and legal risks and uncertainties. Some of these risks are discussed below. For a discussion of additional regulatory and legal risks and uncertainties that you should consider, see the risk factors sections of the respective annual reports on Form 10-K for the year ended December 31, 2008 for Chesapeake and Florida Public Utilities, as updated by their respective quarterly reports on Form 10-Q for the period ended June 30, 2009, all of which are incorporated by reference in this joint proxy statement/prospectus.

The combined company will be affected by developments in the natural gas and electric utility industries, including changes in regulation and increased competition. A failure to adapt to the changing regulatory environment and increased competition after the merger could adversely affect the stability of the combined company's earnings and could result in the erosion of its market position, revenues and profits.

Because Chesapeake and Florida Public Utilities and their respective subsidiaries are regulated in the United States at the federal level and in a number of states and municipalities, the combined company will continue to be impacted by legislative and regulatory developments. The combined company will be subject in the United States to extensive federal regulation as well as to state and local regulation in Florida, Delaware and Maryland. The costs and burdens associated with complying with regulatory jurisdictions may have a material adverse effect on the combined company.

Moreover, increased competition resulting from potential legislative changes, regulatory changes or otherwise may create greater risks to the stability of utility earnings generally. If the combined company is not responsive to the competitive natural gas and electric utilities industry marketplace, it could suffer erosion in

market position, revenues and profits as competitors gain access to the service territories of the combined company.

The Delaware, Maryland and Florida Public Service Commissions and the Federal Energy Regulatory Commission set the rates that the combined company can charge customers for services subject to their regulatory jurisdiction. The combined company's ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that its regulated operations will be able to obtain such approvals or maintain currently authorized rates of return.

The combined company will be dependent upon the construction of new facilities to support future growth in earnings in its natural gas distribution and interstate pipeline operations.

To sustain continued earnings growth, the combined company must identify and construct new facilities that generate earnings that meet or exceed financial targets. The combined company's ability to identify new facilities is dependent upon the growth in its service areas, the local economies, the cost of alternative fuels, and other competitive factors. Once a facility has been approved for construction, there are many regulatory and developmental risks that also must be managed before the project can be constructed, including but not limited to: (i) obtaining the necessary approvals and permits by regulatory agencies on a timely basis and on terms that are acceptable; (ii) managing potential changes in federal, state and local laws and regulations, including environmental requirements, that prevent a project from proceeding or increase the anticipated cost of the project; (iii) acquiring the necessary rights-of-way or land rights on a timely basis on terms that are acceptable; (iv) securing access to additional natural gas supply; and (v) ensuring there are sufficient customer throughput commitments.

The combined company will be subject to operating and litigation risks that may not be fully covered by insurance.

The combined company's operations will be subject to the operating hazards and risks normally incidental to handling, storing, transporting and delivering natural gas and propane and transmitting and distributing electricity to end users. As a result, the combined company will from time to time be a defendant in legal proceedings arising in the ordinary course of business. The combined company will maintain insurance policies with insurers in such amounts and with such coverages and deductibles as are believed to be reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect the combined company from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Environmental Risks Relating to the Businesses of the Combined Company

After consummation of the merger, the combined company will be subject to many environmental risks and uncertainties. Some of these risks are discussed below. For a discussion of additional environmental risks and uncertainties that you should consider, see the risk factors sections of the respective annual reports on Form 10-K for the year ended December 31, 2008 for Chesapeake and Florida Public Utilities, as updated by their respective quarterly reports on Form 10-Q for the period ended June 30, 2009, all of which are incorporated by reference in this joint proxy statement/prospectus.

Costs of compliance with environmental laws may be significant.

The combined company will be subject to federal, state and local laws and regulations governing environmental quality and pollution control. These evolving laws and regulations may require expenditures over a long period of time to control environmental effects at current and former operating sites, including former manufactured gas plant sites that have been acquired from third parties. Compliance with these legal obligations will require the combined company to commit capital. If the combined company fails to comply with environmental laws and regulations, even if such failure is caused by factors beyond its control, it may be assessed civil or criminal penalties and fines.

To date, Chesapeake and Florida Public Utilities have been able to recover, through regulatory rate mechanisms, the costs associated with the remediation of former manufactured gas plant sites. However, there is no guarantee that the combined company will be able to recover future remediation costs in the same manner or at all. A change in the combined company's approved rate mechanisms for recovery of environmental remediation costs at former manufactured gas plant sites could adversely affect its results of operations, cash flows and financial condition.

Further, existing environmental laws and regulations may be revised, or new laws and regulations seeking to protect the environment may be adopted and be applicable to the combined company. Revised or additional laws and regulations could result in additional operating restrictions on the combined company's facilities or increased compliance costs, which may not be fully recoverable.

Pending environmental cleanup proceedings in West Palm Beach, Florida may have a material adverse effect on the combined company.

Florida Public Utilities is currently evaluating remedial options to respond to environmental impacts to soil and groundwater at and in the immediate vicinity of a parcel of property in West Palm Beach, Florida. Florida Public Utilities is working with the Florida Department of Environmental Protection with respect to remedies for this property. The total costs for remedies which have been evaluated range from a low of $2.8 million to a high of $54.6 million. Discussions with the Florida Department of Environmental Protection are ongoing to reach a final remedy for the site. Prior to the conclusion of those negotiations, however, Florida Public Utilities is unable to determine, to a reasonable degree of certainty, the complete extent or cost of remedial action that may be required. The ultimate remedy could exceed the current expectations and environmental reserves of Florida Public Utilities and have a material adverse effect on the combined company.

The combined company may be exposed to certain regulatory and financial risks related to climate change.

Climate change is receiving ever increasing attention from scientists and legislators alike. The debate is ongoing as to the extent to which the climate is changing, the potential causes of this change and its potential impacts. Some attribute global warming to increased levels of greenhouse gases, including carbon dioxide, which has led to significant legislative and regulatory efforts to limit greenhouse gas emissions.

There are a number of legislative and regulatory proposals that address greenhouse gas emissions, which are in various phases of discussion or implementation. The outcome of federal and state actions to address global climate change could result in a variety of regulatory programs, including potential new regulations, additional charges to fund energy efficiency activities, or other regulatory actions. These actions could:

- result in increased costs associated with the combined company's operations;
- increase other costs to the combined company's business;
- affect the demand for natural gas, electricity and propane; and
- impact the prices the combined company charges its customers.

Any adoption by federal or state governments mandating a substantial reduction in greenhouse gas emissions could have far-reaching and significant impacts on the energy industry. Chesapeake and Florida Public Utilities cannot predict the potential impact of such laws or regulations on their future consolidated results of operations, cash flows or financial condition.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus and the documents that are incorporated by reference into this joint proxy statement/prospectus contain or incorporate by reference statements that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private

Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words, such as "project," "believe," "expect," "anticipate," "intend," "plan," "estimate," "continue," "potential," "forecast" or other similar words, or future or conditional verbs such as "may," "will," "should," "would" or "could." These statements represent Chesapeake's and Florida Public Utilities' intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives of Chesapeake, Florida Public Utilities and the combined company. These statements are subject to many risks and uncertainties. In addition to the risk factors described above under "Risks Factors," the following important factors, among others, could cause actual future results to differ materially from those expressed in the forward-looking statements:

- state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed at and degree to which competition enters the electric and natural gas industries (including deregulation);
- the outcomes of regulatory, tax, environmental and legal matters, including whether pending matters are resolved within current estimates;
- industrial, commercial and residential growth in Chesapeake's, Florida Public Utilities' and the combined company's service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes and ice storms;
- the timing and extent of changes in commodity prices and interest rates;
- general economic conditions, including any potential effects arising from terrorist attacks and any consequential hostilities or other hostilities or other external factors over which Chesapeake, Florida Public Utilities and the combined company have no control;
- changes in environmental and other laws and regulations to which Chesapeake, Florida Public Utilities, the combined company and their respective subsidiaries are subject;
- the results of financing efforts, including Chesapeake's, Florida Public Utilities' or the combined company's ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- declines in the market prices of equity securities and resultant cash funding requirements for Chesapeake's, Florida Public Utilities' or the combined company's defined benefit pension plans;
- the level of creditworthiness of counterparties to Chesapeake's, Florida Public Utilities' or the combined company's transactions;
- the amount of collateral required to be posted from time to time in Chesapeake's, Florida Public Utilities' or the combined company's transactions;
- growth in opportunities for Chesapeake's, Florida Public Utilities' or the combined company's business units;
- the extent of success in connecting natural gas supplies to gathering and processing systems and in connecting and expanding gas and electric markets;
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies;
- conditions of the capital markets and equity markets during the periods covered by the forward-looking statements;
- the ability to successfully execute, manage and integrate merger, acquisition or divestiture plans (including the merger described in this joint proxy statement/prospectus), regulatory or other limitations imposed as a result of a merger, acquisition or divestiture, and the success of the business following a merger, acquisition or divestiture;

- the ability to manage and maintain key customer relationships;
- the ability to maintain key supply sources;
- the effect of spot, forward and future market prices on Chesapeake's, Florida Public Utilities' or the combined company's distribution, wholesale marketing and energy trading businesses; and
- the effect of competition on Chesapeake's, Florida Public Utilities' or the combined company's businesses.

In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements might not occur or might occur to a different extent or at a different time than Chesapeake and Florida Public Utilities have described. The areas of risk and uncertainty described above should be considered in connection with any written or oral forward-looking statement that may be made after the date of this joint proxy statement/prospectus by Chesapeake or Florida Public Utilities or anyone acting on behalf of either or both of them. Chesapeake and Florida Public Utilities do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

THE MERGER

The discussion in this joint proxy statement/prospectus of the merger and the principal terms of the merger agreement are subject to, and are qualified in their entirety by reference to, the merger agreement, a copy of which is attached to this joint proxy statement/prospectus as Annex A and is incorporated by reference into this joint proxy statement/prospectus.

General Description of the Merger

The merger is structured as a stock-for-stock transaction. Prior to entering into the merger agreement, Chesapeake formed CPK Pelican, Inc., a new wholly owned subsidiary incorporated in Florida. The merger agreement contemplates that CPK Pelican, Inc. will merge with and into Florida Public Utilities with Florida Public Utilities as the surviving corporation. In the merger, holders of Florida Public Utilities common stock will receive 0.405 shares of Chesapeake common stock for each share of Florida Public Utilities common stock held (the exchange ratio). As a result, the current holders of Florida Public Utilities common stock will become holders of Chesapeake common stock, and Florida Public Utilities will become a wholly owned subsidiary of Chesapeake. Immediately following completion of the merger, based on the number of shares of common stock of each of Chesapeake and Florida Public Utilities outstanding as of August 24, 2009, current Chesapeake shareholders will own approximately 73% of Chesapeake's common stock, and former Florida Public Utilities common shareholders will own approximately 27% of Chesapeake's common stock.

Background of the Merger

The respective senior management teams and boards of directors of Chesapeake and Florida Public Utilities have historically monitored and assessed developments in the energy industry and were generally aware of the business activities of other energy companies, in particular, those companies within their peer group. In addition, the respective senior management teams and boards of directors of the companies have regularly reviewed strategic opportunities in the energy industry in response to developments within their respective businesses, industry trends, competitive conditions and changes in legislation and regulation.

For several years, Chesapeake's senior management team and board of directors have been engaged in a strategic planning process designed to enhance its utility foundation and furthermore to grow earnings from a stable utility foundation by investing in related businesses and services that provide opportunities for higher returns. As part of this process, Chesapeake has periodically evaluated possible business combinations. In determining the feasibility of a business combination, the Chesapeake board considered whether a transaction with the other companies would be consistent with Chesapeake's evolving strategic direction and the actual opportunity presented by the various potential transactions. In addition, consideration was given to each company's size, business portfolio, and preliminary financial information.

The respective boards of directors and senior management teams of Chesapeake and Florida Public Utilities have focused on their respective company's ability to access capital to profitably fund growth, and considered whether an appropriate business combination would provide certain benefits. In particular, Chesapeake's board and management team considered that the potential transaction would, among other things: expand Chesapeake's geographic footprint and increase the number of total customers served and the diversity of service offerings; increase its capabilities to serve future expected growth in Florida; expand Chesapeake's energy portfolio and utility foundation; and increase financial flexibility and ensure continued access to capital markets.

On June 12, 2007, at a regularly scheduled meeting of the Florida Public Utilities board of directors, the board discussed strategic opportunities and directed John T. English, Chairman, President and Chief Executive Officer of Florida Public Utilities, to arrange for discussions with Chesapeake to determine opportunities for the two companies to discuss ideas to improve growth and reduce costs.

On August 6, 2007, Mr. English and John R. Schimkaitis, President and Chief Executive Officer of Chesapeake, agreed to meet to discuss best practices for the two companies, including opportunities for the two companies to improve growth and reduce costs.

On August 20, 2007, at a regularly scheduled meeting of the Florida Public Utilities board of directors, the board discussed strategic opportunities and directed Mr. English to continue his discussions with Chesapeake regarding best practices.

On September 27, 2007, Messrs. Schimkaitis and English, joined by Michael P. McMasters, the current Executive Vice President and Chief Operating Officer of Chesapeake, Charles L. Stein, Senior Vice President and Chief Operating Officer of Florida Public Utilities, and George M. Bachman, Treasurer and Chief Financial Officer of Florida Public Utilities, met and discussed working together to grow their respective businesses. At this meeting, Mr. English provided Messrs. Schimkaitis and McMasters with certain publicly available information relating to Florida Public Utilities.

Following this meeting, over the course of the next several days, at Mr. Schimkaitis' direction, certain senior executives of Chesapeake analyzed strategic opportunities involving Florida Public Utilities. Given Chesapeake's natural gas and propane distribution operations in Florida, Chesapeake was generally familiar with Florida Public Utilities' natural gas and propane distribution operations.

On October 12, 2007, Mr. English contacted Mr. Schimkaitis by telephone and suggested they meet to discuss a potential business combination. Mr. Schimkaitis agreed to meet to discuss the matter.

On November 7, 2007, at a regular meeting of the Chesapeake board of directors, the board reviewed information presented relating to certain companies of strategic interest to Chesapeake, including Florida Public Utilities. After discussion regarding these companies, the board authorized Chesapeake management to continue discussions and other activities relating to a potential transaction with Florida Public Utilities.

On November 12, 2007, Chesapeake provided a form of confidentiality agreement to Florida Public Utilities. The parties engaged in discussions and negotiations on the confidentiality agreement over the next week. On November 27, 2007, Chesapeake and Florida Public Utilities entered into a confidentiality agreement covering the discussions between the companies and any confidential material that might be exchanged by the parties. In December 2007, Chesapeake and Florida Public Utilities commenced due diligence pursuant to the confidentiality agreement.

On December 4, 2007, at a regularly scheduled meeting of the Florida Public Utilities board of directors, the board received a briefing from Messrs. English and Bachman. After discussion, the board authorized Mr. English to further explore a business combination with Chesapeake. In a subsequent special meeting of the Florida Public Utilities board of directors on December 10, 2007, the board reviewed the strategic and operational goals of Florida Public Utilities and the advantages and disadvantages of a possible merger with Chesapeake.

On December 6, 2007, Messrs. Schimkaitis, McMasters, English and Stein met in Orlando, Florida to discuss further the possibility of a transaction involving Chesapeake and Florida Public Utilities, including structuring the transaction as a merger of the two companies.

On December 12, 2007, at a regular meeting of the Chesapeake board of directors, Mr. McMasters reviewed with the board certain key financial data and operating information relating to Chesapeake, Florida Public Utilities and the two companies on a combined basis. Mr. McMasters also summarized for the board the discussions held to date. Mr. McMasters presented the board with preliminary financial analysis relating to a business combination with Florida Public Utilities, and highlighted for the board the estimated required synergies to avoid earnings dilution. At this meeting, the Chesapeake board approved the establishment of a new Mergers & Acquisitions Committee, or the Chesapeake M&A Committee, of the Chesapeake board to assist management and the board with the evaluation of a potential business combination with Florida Public Utilities. A formal charter was drafted and approved by the board for the Chesapeake M&A Committee.

Throughout December of 2007, Chesapeake and Florida Public Utilities began to exchange confidential financial and other information regarding each company's businesses.

On January 4, 2008, Messrs. English and Bachman met in Orlando, Florida with Messrs. Schimkaitis and McMasters and Beth W. Cooper, the current Senior Vice President and Chief Financial Officer of Chesapeake, to discuss the synergies of a merger between the companies and the outlines of a term sheet, timeline and due diligence requests.

After this meeting, over the course of the next couple of weeks, the parties worked together to develop a comprehensive due diligence listing that would serve as the outline for what documents needed to be gathered.

During this period of time, Chesapeake also reached out and solicited proposals from four financial advisory firms qualified to conduct the financial analyses necessary to be able to issue a fairness opinion.

On January 15, 2008, during a telephonic meeting of the Chesapeake M&A Committee, Mr. McMasters discussed with the Committee the latest events related to a possible transaction with Florida Public Utilities, including the current range of estimated synergies. He also discussed with the Committee the impact of Florida Public Utilities' stock price and then-pending rate case on the estimated synergies for the purposes of calculating the estimated accretion and dilution of a business combination with Florida Public Utilities. Mr. McMasters then reviewed with the Committee the key provisions of a preliminary term sheet for a business combination with Florida Public Utilities, and he informed the Committee that Chesapeake executives were continuing their discussions with Florida Public Utilities regarding a stock-for-stock exchange offer and the associated exchange ratio for such a transaction. The Committee identified several outside parties to assist with the possible transaction, discussed the experience and backgrounds of legal counsel that would be assisting Chesapeake and discussed the proposals made by certain financial advisory firms in connection with the transaction. The Committee also discussed several critical success factors relating to the transaction. Mr. McMasters briefly described to the Committee the cost and benefits of engaging a financial advisor for the transaction. After discussion regarding proposals by the various financial advisory firms, the Committee requested that Chesapeake management continue discussions on pricing and services with several of the financial advisory firms.

On January 22, 2008, Chesapeake retained Robert W. Baird & Co. Incorporated, or Baird, as its financial advisor for the transaction by entering into an engagement letter with Baird.

On January 23, 2008, executives of Chesapeake and representatives of Baird engaged in preliminary discussions relating to the exchange ratio and financial due diligence for the transaction.

Also on January 23, 2008, the Florida Public Utilities board of directors held a special meeting to discuss the possible transaction with Chesapeake. Messrs. English and Bachman presented to the board an update on the discussions. The board discussed a variety of matters pertaining to a possible merger with Chesapeake. The board discussed the desirability of retaining a financial advisory firm to provide the company with financial advisory services and directed management to obtain bids. Over the next few days, management of Florida Public Utilities interviewed several firms, and ultimately selected Houlihan Lokey to act as Florida

Public Utilities' financial advisor based on Houlihan Lokey's experience and reputation as an internationally recognized financial advisor in connection with transactions similar to the one being considered with Chesapeake.

In January 2008, Chesapeake provided to Florida Public Utilities a proposed timeline for due diligence, negotiation of a merger agreement and regulatory filings, an outline of proposed next steps to be taken in connection with the proposed transaction and a preliminary due diligence request list. Over the next couple of weeks, the parties continued to exchange financial and other information electronically and engage in phone discussions for diligence purposes. Also during this period, Chesapeake engaged an environmental consultant to assist Chesapeake with the environmental analyses of Florida Public Utilities and its properties.

In the second week of February 2008, each of the two companies made available to the other and their respective advisors access to more extensive confidential financial and other information regarding their respective businesses contained in an electronic data room established by Florida Public Utilities' outside legal counsel for the transaction. Also during February 2008, Chesapeake engaged an electric utility operations consultant to conduct diligence procedures related to Florida Public Utilities' two electric operations. Chesapeake also expanded the scope of services of its current investor relations consultant to include drafting the investor relations strategy for the transaction as well as reviewing the key documents that would be utilized to communicate with the financial community.

On February 12, 2008, Chesapeake presented a draft term sheet to Florida Public Utilities and Florida Public Utilities provided preliminary comments on the draft.

On February 13, 2008, certain Chesapeake executives met with representatives of Baird to discuss a possible transaction with Florida Public Utilities. Key items discussed and reviewed during this meeting included: stock price activity, an analysis of relative contribution, discounted cash flow analyses, accretion/ dilution sensitivity models, an implied premium analysis, a comparative company analysis, and ratios related to recent natural gas utility transactions. Meeting participants also discussed recent trends with regard to post-merger board of directors appointments.

On February 19, 2008, the Chesapeake M&A Committee met. Prior to this meeting, management circulated information for the Committee members' review. At the meeting, Mr. McMasters discussed with the Committee certain financial data relating to a potential business combination with Florida Public Utilities. Mr. McMasters described to the Committee certain key objectives, and the associated assumptions and risks, that would need to be accomplished in order for Chesapeake to achieve the pro forma as presented. Mr. McMasters also described to the Committee Chesapeake's proposed strategy to accomplish such key objectives. Mrs. Cooper informed the Committee of the ongoing discussions between executives of Chesapeake and Florida Public Utilities relating to the exchange ratio for the business combination. Mrs. Cooper provided the Committee with an overview of the recent changes that had been made to the term sheet for the transaction, and she informed the Committee that a draft term sheet had been presented to Florida Public Utilities. After discussion, the Committee ratified the terms set forth in the term sheet in their entirety. The Committee was presented with a preliminary draft of the merger agreement for the business combination. Mrs. Cooper summarized for the Committee the key provisions in the merger agreement, and members of the Committee asked several questions and discussed several provisions in the merger agreement. Mr. Schimkaitis provided the Committee with an overview of the current members of the Florida Public Utilities board of directors and informed the Committee that several members of the Florida Public Utilities board may be interested in serving on Chesapeake's board if the transaction were consummated. The Committee discussed other organizational considerations, including the current and prospective roles of key officers of Florida Public Utilities. The Committee ratified Chesapeake's selection of Baird to serve as its financial advisor in the transaction. Mrs. Cooper summarized for the Committee certain key points from the meeting held on February 13, 2008 among certain Chesapeake executives and representatives of Baird. The Committee then discussed the investor relations aspect of the transaction.

On February 20, 2008, at a regular meeting of the Chesapeake board of directors, Mrs. Cooper reviewed with the board the key provisions of the term sheet presented to the Chesapeake M&A Committee at its February 19, 2008 meeting, including the fees associated with the proposed transaction, the proposed price per

share and certain other key terms and conditions. After consideration, the Chesapeake board ratified the terms and conditions of the term sheet and the distribution of the term sheet to Florida Public Utilities executives.

On February 22, 2008, Mrs. Cooper presented a draft term sheet to Mr. Bachman and she informed Mr. Bachman that Chesapeake preferred a merger transaction structure whereby Florida Public Utilities would become a wholly owned subsidiary of Chesapeake upon consummation of the transaction. Mrs. Cooper also informed him that Chesapeake proposed to maintain the Florida Public Utilities executive officers in their existing positions, subject to modifications to their existing employment agreements. Mrs. Cooper directed Mr. Bachman's attention to the provision in the proposed term sheet relating to board composition of Chesapeake and Florida Public Utilities upon consummation of the transaction. Mrs. Cooper also raised certain open questions relating to Florida Public Utilities employee benefit plans.

In late February 2008, Chesapeake and Florida Public Utilities executives discussed the retention of Florida Public Utilities executives by the combined company and the change in control severance payments that might be due to Florida Public Utilities executives in the event of a combination of the two companies.

On March 4, 2008, Chesapeake's outside legal counsel sent Florida Public Utilities' outside legal counsel a first draft of the merger agreement. The draft did not specify the exchange ratio.

To further the ongoing due diligence efforts and discussions by the companies relating to the proposed business combination, during the period from March 5 to March 12, 2008, employees of Chesapeake and representatives of Baird and Chesapeake's outside legal counsel met on certain days during that period in West Palm Beach, Florida with employees of Florida Public Utilities and representatives of Houlihan Lokey and Florida Public Utilities' outside legal counsel. At these meetings, members of each company's management team answered questions regarding their respective company's businesses. Also during this period, the employees and financial and legal advisors of each company conducted additional diligence review of extensive confidential financial and other information made available by both companies at the site of these meetings.

On March 10, 2008, representatives of the respective financial advisors of Chesapeake and Florida Public Utilities met in West Palm Beach, Florida to discuss outstanding business and legal matters relating to a potential merger transaction, including a potential exchange ratio.

On March 14, 2008, executives of Chesapeake and Florida Public Utilities, with the assistance of their respective legal and financial advisors, met to discuss Chesapeake's businesses.

In late March 2008, representatives of the respective outside legal counsel for the two companies began to discuss concerns raised by the draft merger agreement, including, among other matters, the representations and warranties, fiduciary and termination fee provisions, covenants of the parties between signing of the merger agreement and closing of the transaction, closing conditions and the definition of material adverse effect.

On March 28, 2008, Florida Public Utilities' outside legal counsel sent proposed revisions to the draft merger agreement to Chesapeake's outside legal counsel. These proposed revisions did not specify the exchange ratio.

During April 2008, the parties continued to conduct diligence with respect to the other company's businesses and in that regard discussions were held by executives and representatives of the parties and extensive information continued to be exchanged by the parties.

On April 2, 2008, representatives of the respective outside legal counsels for the two companies discussed the March 28, 2008 draft of the merger agreement. This discussion did not include any discussion of the exchange ratio.

On April 4, 2008, executives of Florida Public Utilities met with representatives of Florida Public Utilities' legal and financial advisors to discuss matters relating to the transaction, including the status of discussions with Chesapeake representatives regarding a potential exchange ratio.

On April 7, 2008, executives of Chesapeake and representatives of Baird and Chesapeake's outside legal counsel discussed several outstanding matters relating to the transaction, including the exchange ratio in the transaction, Florida Public Utilities' pension plan and the new employment agreements under negotiation with Messrs. English, Stein and Bachman.

On April 11, 2008, Chesapeake entered into an agreement with a public relations/communications firm to assist Chesapeake in developing and implementing a communications strategy associated with the announcement of a transaction. The consultant assisted Chesapeake in drafting key documents that would be distributed both internally and externally.

On April 17, 2008, the Florida Public Utilities board of directors met in a regularly scheduled meeting. Present at that meeting were representatives of Houlihan Lokey and Florida Public Utilities' outside legal counsel. At that meeting, the directors, with the assistance of the company's legal and financial advisors, reviewed and discussed the status of discussions with Chesapeake and the potential terms of a merger transaction with Chesapeake. The directors also discussed the possibility of engaging in discussions with another potential merger partner, but ultimately directed management to continue to negotiate a potential merger transaction with Chesapeake.

On April 18 and 19, 2008, representatives of the respective financial advisors of Chesapeake and Florida Public Utilities met to discuss outstanding business and legal matters relating to the potential merger transaction, including a potential exchange ratio and the proposed termination fee.

On April 18, 2008, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel. Also on this date, Chesapeake's outside legal counsel communicated to Florida Public Utilities' outside legal counsel Chesapeake's understanding of the status of certain unresolved matters pertaining to the change in control provision of Florida Public Utilities' pension plan, Chesapeake's board composition after consummation of the transaction, the new employment agreements under negotiation with Messrs. English, Stein and Bachman, and certain diligence items.

On April 22, 2008, Chesapeake's outside legal counsel sent Florida Public Utilities' outside legal counsel the exhibit to the merger agreement containing actions proposed by Chesapeake to be undertaken by Florida Public Utilities to ensure that the merger would not constitute a change in control under Florida Public Utilities' pension plan.

On April 23, 2008, representatives of the respective outside legal counsels for the two companies discussed the April 18, 2008 draft of the merger agreement. This did not include any discussion of a proposed exchange ratio.

From April 24 to April 27, 2008, Chesapeake's environmental consultant conducted Phase I environmental assessments on certain properties of Florida Public Utilities. In addition to these Phase I assessments, the environmental consultant also reviewed other publicly available information on the properties, title searches, and former Phase I environmental assessments.

On April 24, 2008, executives of Chesapeake and representatives of its outside legal counsel and executives of Florida Public Utilities and representatives of its outside legal counsel discussed the open items in the draft merger agreement.

On April 25, 2008, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel, reflecting changes resulting from the discussions held between executives and representatives of the parties on April 23 and 24, 2008. The draft did not specify an exchange ratio.

On April 28, 2008, representatives of the respective outside legal counsels for the two companies discussed unresolved items in the April 25, 2008 draft of the merger agreement. This did not include any discussion of the exchange ratio. Later that day, Chesapeake's outside legal counsel sent Florida Public Utilities' outside legal counsel a revised draft of the merger agreement, reflecting changes resulting from the discussion held earlier that day. Florida Public Utilities' outside legal counsel, on that same day, sent

comments to Chesapeake's outside legal counsel relating to the revised merger agreement. Neither the draft nor the comments addressed the exchange ratio.

On April 30, 2008, the Chesapeake M&A Committee met to discuss the proposed transaction. Prior to this meeting, Chesapeake management had circulated the documents that would be discussion points during the upcoming meeting. At this meeting, representatives of Baird provided the Committee with an overview of the proposed transaction. The Baird representatives informed the Committee that discussions with representatives of Houlihan Lokey were ongoing regarding the exchange ratio in the transaction.

On May 1, 2008, at a regular meeting of the Chesapeake board of directors, Mr. Schimkaitis summarized for the board recent events and certain unresolved matters relating to the transaction. Chesapeake's outside legal counsel discussed with the board the fiduciary responsibilities and duties of the directors under applicable law and the proposed key terms and conditions of the merger agreement, including the representations and warranties, certain covenants and the termination fee. Chesapeake's outside legal counsel also reiterated for the board the unresolved matters summarized by Mr. Schimkaitis and provided the board with further clarification of the status of each of these matters. Chesapeake's outside legal counsel also reviewed with the board the role of a fairness opinion in these types of transactions. Baird representatives then provided the board with an overview of the proposed transaction from a financial point of view.

Also on May 1, 2008, representatives of the respective outside legal counsels for the two companies discussed unresolved items in the April 28, 2008 draft of the merger agreement. The exchange ratio was not discussed. Later in the day, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel, reflecting changes resulting from the discussion of the merger agreement held earlier that day.

On May 2, 2008, representatives of the respective financial advisors of Chesapeake and Florida Public Utilities met to discuss outstanding business and legal matters relating to the potential merger, including the possible exchange ratio for the transaction.

Also on May 2, 2008, the Florida Public Utilities board of directors met to discuss the potential transaction. Representatives of Houlihan Lokey and the company's outside legal counsel were present at the meeting. The board, with the assistance of the company's legal and financial advisors, reviewed and discussed the status of the discussions and the potential terms of a merger transaction with Chesapeake, including the advantages and disadvantages of engaging in a merger transaction with Chesapeake.

On May 3, 2008, Messrs. Schimkaitis and English discussed the exchange ratio in the transaction, the new employment agreements that remained under negotiation with Messrs. English, Stein and Bachman and the treatment in the transaction of certain diligence issues. From May 3, 2008 to May 20, 2008, the respective executives and representatives for the two companies engaged in numerous discussions relating to these unresolved matters.

On May 20, 2008, representatives of Chesapeake communicated to representatives of Florida Public Utilities Chesapeake's proposals pertaining to the new employment agreements under negotiation with Messrs. English, Stein and Bachman and certain diligence matters.

On May 21, 2008, a meeting of the Florida Public Utilities board of directors was convened to discuss the proposed merger with Chesapeake. Present at the meeting were representatives of the company's outside legal counsel and Houlihan Lokey. The outstanding due diligence items were discussed as were the matters pertaining to the proposed exchange ratio and other economic terms of the proposed deal. The board expressed to management concern about the inability to reach agreement on key business items and the then current pricing for the transaction and concluded that because of those matters a transaction was not feasible at this time. The board instructed Mr. English to advise Chesapeake of the board's decision. Accordingly, on that same day, Mr. English informed Mr. Schimkaitis that Florida Public Utilities was terminating discussions with Chesapeake regarding a potential transaction.

Even though discussions between the parties terminated, Chesapeake continued to analyze a potential transaction with Florida Public Utilities and, on June 24, 2008, at a regular meeting of the Chesapeake board

of directors, Mr. Schimkaitis informed the board of several strategies and the key points relating to such strategies that management was pursuing in regards to renewing discussions related to a potential transaction with Florida Public Utilities. The board instructed management to finalize their position on the likelihood of these strategies being successful and also provided feedback on several other strategies for consideration and research.

During the next several months, Chesapeake management periodically discussed and internally analyzed the impact of renewing and pursuing a potential transaction with Florida Public Utilities. Chesapeake management also considered the outstanding matters between Chesapeake and Florida Public Utilities that, in part, resulted in the termination of discussions in May 2008 and discussed and analyzed possible resolutions thereof.

On December 4, 2008, Messrs. Schimkaitis and English met to discuss the possibility of re-opening discussions regarding a business combination between their respective companies.

On December 11, 2008, at a regular meeting of the Chesapeake board of directors, Mr. McMasters informed the board of the recent discussions between Messrs. Schimkaitis and English, and that Mr. Schimkaitis would be meeting with Mr. English again in the near future to resume discussions and assess the likelihood of pursuing a transaction. Also on that date, the Florida Public Utilities board of directors met to hear a report from Mr. English on his meeting with Mr. Schimkaitis.

On December 19, 2008, the companies resumed a business due diligence process.

On February 13, 2009, Mr. Schimkaitis sent a revised draft of the merger agreement to Mr. English. The draft did not specify the exchange ratio.

On February 16, 2009, Mr. English conveyed his general comments on the revised draft of the merger agreement to Mr. Schimkaitis, including the treatment in the merger agreement of certain items that, in part, resulted in the termination of discussions in 2008.

On February 18, 2009, Mr. Schimkaitis sent a revised draft of the merger agreement to Mr. English reflecting changes intended to address Mr. English's comments to the February 13, 2009 draft and to reflect the parties' mutual understanding with respect to those items. The exchange ratio remained unspecified in this draft.

On February 23, 2009, there was a special meeting of the Florida Public Utilities board of directors convened to consider the renewed discussions. Messrs. English and Bachman provided a full report of the status of the discussions and the treatment of the unresolved matters from 2008. The board directed management to continue negotiations with Chesapeake.

On February 24, 2009, at a regular meeting of the Chesapeake board of directors, Mr. McMasters informed the board of the renewal of dialogue between Chesapeake and Florida Public Utilities in regards to a potential transaction, and that the merger agreement was being reviewed and revised by the parties and their respective outside legal counsels. Mr. McMasters also discussed with the board the current questions outstanding regarding the tax opinion to be given in connection with the transaction.

On March 11, 2009, at a regularly scheduled meeting of the Florida Public Utilities board of directors, management provided the board with an update on the status of the renewed discussions with Chesapeake.

On March 17, 2009, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel. The draft did not specify the exchange ratio. Included in this transmittal was Chesapeake's revised proposal of the actions to be taken by Florida Public Utilities prior to consummation of the merger to ensure that the merger would not constitute a change in control under Florida Public Utilities' pension plan.

On March 19, 2009, at a meeting of the Chesapeake M&A Committee, Mr. Schimkaitis provided the Committee with an update on the possible transaction with Florida Public Utilities, including the status of the representations letter that will serve as the basis for the tax opinion to be given in connection with the transaction. He also discussed with the Committee the anticipated timeframe for execution of the merger

agreement and announcement of the transaction, including the required disclosure documents to be filed with the SEC in connection with consummation of the transaction. Mr. Schimkaitis discussed with the Committee the financial aspects of the transaction, and he informed the Committee of the status of the pro forma financial statements and the analysis being conducted with respect to potential synergies. Mr. McMasters then informed the Committee that Florida Public Utilities had requested Chesapeake's proposed exchange ratio and that Chesapeake would be contacting representatives from Baird to receive an analysis of the exchange ratio for the proposed transaction. After discussion, the Committee authorized Messrs. Schimkaitis and McMasters to proceed with negotiations at a targeted exchange ratio range. Mr. Schimkaitis then provided the Committee with an update on the merger agreement, and he informed the Committee that the termination fee and the exchange ratio provisions would be completed after completion of updated diligence. Mr. Schimkaitis also highlighted for the Committee the key provisions of the new employment agreements being negotiated with Messrs. Bachman and Stein, as well as the consulting agreement, in lieu of an ongoing employment agreement as was contemplated during 2008 discussions, being negotiated with Mr. English. Mrs. Cooper then informed the Committee of the status and process relating to updated diligence.

Also on March 19, 2009, representatives of the respective financial advisors of Chesapeake and Florida Public Utilities met to discuss outstanding business and legal matters relating to the potential merger transaction, including a potential exchange ratio.

On March 24, 2009, at a meeting of the Florida Public Utilities board of directors, the directors were updated on the progress of the proposed transaction with Chesapeake.

On March 25, 2009, Chesapeake's external auditors, Beard Miller Company LLP traveled to Florida to review the workpapers of Florida Public Utilities' external auditors, BDO Seidman, LLP.

On or around March 27, 2009, Florida Public Utilities' outside legal counsel re-opened the electronic data room previously established for due diligence purposes, and the companies began uploading updated financial and other information regarding their respective businesses into the data room.

On April 1, 2009, Messrs. English, Bachman, Stein, Schimkaitis and McMasters met in West Palm Beach, Florida to review the status of the diligence process and to discuss changes and developments in the respective companies since May 2008. A similar meeting was held on April 9, 2009 in West Palm Beach to review diligence matters.

Also on April 1, 2009, Florida Public Utilities' outside legal counsel sent proposed revisions to the merger agreement to Chesapeake's outside legal counsel. An exchange ratio was not proposed in the revisions.

On April 7, 2009, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel. The draft did not specify an exchange ratio. This draft of the merger agreement was also reviewed by the members of the Chesapeake board of directors and representatives of Baird.

On April 9, 2009, the respective executives and financial and legal representatives of the companies performed additional due diligence procedures and discussed the anticipated timing of meetings of the boards of directors of the respective companies to consider and approve the merger agreement.

On April 13, 2009, the Florida Public Utilities board of directors held a special meeting. Representatives of Houlihan Lokey and the company's outside legal counsel were present at this meeting. At this meeting, the board, with the assistance of the company's legal and financial advisors, considered and discussed the status of negotiations, outstanding business and legal matters, including the potential exchange ratio, and other economic terms of the proposed transaction with Chesapeake. The board also considered the written proposal from another third party, Energy West, Incorporated, to merge with Florida Public Utilities in a stock-for-stock transaction.

Also on April 13, 2009, at a meeting of the Chesapeake M&A Committee, Mr. Schimkaitis provided the Committee with an update on the transaction with Florida Public Utilities, including the status of the merger agreement. He discussed with the Committee certain matters relating to Florida Public Utilities' pension plan and the impact of the pension plan matters on the merger agreement. The Committee discussed the termination

fee and the takeover proposal provisions of the merger agreement. Mr. Schimkaitis provided the Committee with an update of the status of the new employment agreements being negotiated with Messrs. Bachman and Stein and the consulting agreement being negotiated with Mr. English, and highlighted for the Committee certain tax items relating to the stay bonus and change in control payment provision of such agreements. Mr. Schimkaitis then discussed with the Committee the financial aspects of a business combination with Florida Public Utilities, and he reviewed with the Committee the pro forma financial statements, as well as Florida Public Utilities' revised five-year forecast. Mr. Schimkaitis informed the Committee of Chesapeake's range of proposed exchange ratios for the transaction. The Committee discussed the summary it received prior to the meeting regarding various scenarios and the related impact of a change in the range of the proposed exchange ratios. The Committee also discussed the possibility and impact of a counteroffer of an exchange ratio outside of the targeted range. Mr. Schimkaitis reminded the Committee of the anticipated timing of consummating the transaction and the types of documents that would be filed with the SEC as a result of consummation. Mr. Schimkaitis then reviewed with the Committee the current draft Form 8-K and press release relating to the announcement of the transaction. After discussion, the Committee recommended several changes to the draft Form 8-K and press release. Mr. Schimkaitis also provided the Committee with a summary of the communications plan to be implemented upon execution of the merger agreement. Mr. Schimkaitis provided the Committee several other updates, including with respect to updated diligence, the tax opinion to be given in connection with the transaction, and the proposed regulatory plan relating to the transaction. Lastly, he informed the Committee that the trading window would remain closed until the closing date of the transaction and until further notice was provided.

From April 13 to April 15, 2009, representatives of the respective financial advisors of Chesapeake and Florida Public Utilities continued to meet to discuss the outstanding items, including the proposed exchange ratios.

On April 15, 2009, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel. The draft did not specify an exchange ratio.

On April 16, 2009, at a meeting of the Chesapeake M&A Committee, Mr. Schimkaitis discussed with the Committee the updated pro forma financial statements provided prior to the meeting. He informed the Committee that after discussions between the respective financial advisors and then among the executives of Chesapeake and Florida Public Utilities, the exchange ratio for the transaction had been established at 0.405 and the termination fee had been established at $3.4 million. The Committee discussed the exchange ratio and the termination fee and the impact of the termination fee on the transaction. The Committee approved the exchange ratio of 0.405 and the termination fee of $3.4 million and recommended their adoption by the Chesapeake board of directors. Mr. Schimkaitis then provided the Committee with an update on the status of the transaction documents, including the merger agreement, the new employment agreements with Messrs. Bachman and Stein and the consulting agreement with Mr. English.

Also on April 16, 2009, Chesapeake's outside legal counsel sent a revised draft of the merger agreement to Florida Public Utilities' outside legal counsel that specified an exchange ratio of 0.405.

On April 17, 2009, the Chesapeake board of directors met to discuss the proposed transaction. Mr. Schimkaitis provided the board with a brief overview of the remaining outstanding business items with respect to the merger agreement, including the exchange ratio. Mr. McMasters then reviewed with the board the pro forma financial statements presented to the board to illustrate the financial impact on Chesapeake after consummation of the transaction. After discussion and questions by the board relating to various line items in the pro forma financial statements, Mr. Schimkaitis informed the board that the exchange ratio for the transaction was currently proposed at 0.405 shares of Chesapeake for each share of Florida Public Utilities. The board discussed the negotiations of the exchange ratio to date. Mr. Schimkaitis directed the board to the financial models provided to the board prior to the meeting. He reviewed with the board the models that compared different exchange ratios, considering expected synergies and other opportunities. After board discussion with respect to such financial models, a representative of Baird reviewed with the board the fairness presentation of Baird presented at the meeting, including several assumptions underlying Baird's analysis of the proposed transaction. He also discussed with the board several financial aspects of the transaction,

including the implied valuation, transaction multipliers, implied tax premiums, historical and projected financials for Florida Public Utilities and Chesapeake, as well as stock price performance, trading volume and share ownership. The Baird representative also discussed and reviewed with the board various valuation methodologies utilized by Baird to assess with respect to fairness, from a financial point of view, the exchange ratio. After discussion by the board with regard to the various analyses performed by Baird, the Baird representative reviewed with the board Baird's written fairness opinion presented at the meeting, which stated to the effect that, subject to the terms of the letter, the exchange ratio of 0.405 shares of Chesapeake for each share of Florida Public Utilities is fair from a financial point of view to Chesapeake. After discussion, a representative of Chesapeake's outside legal counsel reviewed with the board the material terms of the proposed merger agreement presented at the meeting. The terms reviewed included termination and non-solicitation provisions, the proposed termination fee of $3.4 million and the terms under which such termination fee would be triggered. After discussion by the board with regard to the proposed termination fee and its triggers, Mr. Schimkaitis provided the board with an update on the status of the new employment agreements with Messrs. Bachman and Stein and the consulting agreement with Mr. English. He highlighted for the board several provisions in the agreements and discussed with the board changes in the tax-related provisions. Following these discussions, and discussions among the members of the board, management and the company's advisors, including consideration of the factors described below under "— Recommendation of the Chesapeake Board of Directors and Chesapeake's Reasons for the Merger," the board unanimously approved the proposed transaction and authorized management to conclude negotiations and execute the merger agreement on the terms described to the board.

The Florida Public Utilities board of directors also met in a special meeting on April 17, 2009. Present at that meeting were members of the company's management team, Messrs. Bachman and Stein, as well as representatives of Houlihan Lokey and the company's outside legal counsel. The board considered the proposed merger agreement with Chesapeake, providing for a stock-for-stock tax-free merger at a fixed exchange ratio of 0.405 of a share of Chesapeake common stock for each outstanding share of Florida Public Utilities common stock. At this meeting, the representative from the company's outside legal counsel reviewed with the board the terms of the proposed merger agreement, the conditions to closing, termination rights and consequences, the proposed executive agreements and the proposed economic terms. Counsel then discussed with the board its fiduciary duties in connection with its consideration of the proposed transaction, the legal terms of the proposed transaction agreements, the shareholder and regulatory approvals that would be required to complete the proposed merger, the likely process and timetable of the merger, including expected timing for obtaining the required shareholder and regulatory approvals and the proposed executive agreements and other compensation and benefits matters in connection with the merger. Counsel then reviewed with the board draft resolutions relating to the proposed merger. Counsel responded to questions of the directors and a discussion was had. A representative of Houlihan Lokey then reviewed and discussed with the board Houlihan Lokey's financial analysis with respect to the proposed merger with Chesapeake and responded to questions from the directors about the proposed transaction from a financial perspective. The directors, with the assistance of the company's legal and financial advisors, then discussed the unsolicited written proposal from Energy West. After discussion, the directors unanimously agreed not to pursue the Energy West transaction because such a transaction was not in the best interests of Florida Public Utilities' shareholders and would not accomplish Florida Public Utilities' strategic objectives. The board also particularly noted that the proposed consideration from Energy West was not as beneficial to the shareholders of Florida Public Utilities as the proposed consideration from Chesapeake. The board directed Mr. English to notify Energy West of the board's decision. The board then asked the representative of Houlihan Lokey if Houlihan Lokey was prepared to deliver its opinion regarding the proposed merger with Chesapeake. The representative rendered orally Houlihan Lokey's opinion to the board with respect to the fairness, from a financial point of view, to the holders of Florida Public Utilities common stock of the exchange ratio provided for in the proposed merger pursuant to the merger agreement. Following these discussions, and discussions among the members of the board, management and the company's advisors, including consideration of the factors described below under "— Recommendation of the Florida Public Utilities' Board of Directors and Florida Public Utilities' Reasons for the Merger," the board unanimously determined that the transactions contemplated by the Chesapeake merger agreement and the related transactions and agreements are fair to, advisable and in the best interests of Florida

Public Utilities and its shareholders, and the directors voted unanimously to approve the merger with Chesapeake, to approve the merger agreement and related transactions and agreements, and to recommend approval of the merger and the merger agreement to the shareholders of Florida Public Utilities.

Following the board meetings on April 17, 2009, the respective executives and other representatives of Chesapeake and Florida Public Utilities finalized the merger agreement and Chesapeake and Florida Public Utilities executed the merger agreement on the evening of April 17, 2009. In addition, the new employment agreements with each of Messrs. Stein and Bachman and the consulting agreement with Mr. English were finalized and executed by the parties on April 17, 2009. The execution of the merger agreement was publicly announced on the morning of April 20, 2009 before the opening of trading on the New York Stock Exchange. A joint press release was issued and both companies filed a Form 8-K describing the key terms and conditions of the transaction, including the new employment agreements executed with Messrs. Stein and Bachman, as well as the consulting agreement with Mr. English. The merger agreement was attached as an exhibit to each Form 8-K.

Recommendation of Chesapeake's Board of Directors and Chesapeake's Reasons for the Merger

The Chesapeake board of directors has unanimously determined that the merger and the merger agreement are advisable and in the best interests of Chesapeake and its shareholders, has unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement, and unanimously recommends that Chesapeake shareholders vote "FOR" the proposal to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger.

In reaching its determination to recommend the adoption of the merger agreement and the approval of the merger and the issuance of Chesapeake common stock in the merger, the Chesapeake board of directors consulted with management, as well as Baird, Chesapeake's financial advisor which was engaged to provide a financial opinion to the Chesapeake board with respect to the merger, and Chesapeake's outside legal counsel, and considered various material factors, which are discussed below. The following discussion of the information and factors considered by the Chesapeake board of directors is not intended to be exhaustive. In view of the wide variety of factors considered in connection with the merger, the Chesapeake board of directors did not consider it practicable to, nor did it attempt to, quantify or otherwise assign relative weights to the specific material factors it considered in reaching its decision. In addition, individual members of the Chesapeake board of directors may have given different weight to different factors. The Chesapeake board of directors considered this information and these factors as a whole, and overall considered the relevant information and factors to be favorable to, and in support of, its determinations and recommendations. Among the material information and factors considered by the Chesapeake board of directors were the following:

- **Strategic Considerations.** Chesapeake's board of directors believes the merger will create a combined utility company that is regionally focused and that has attractive strategic growth opportunities in both its regulated and unregulated businesses. Consistent with Chesapeake's stated strategy, the combined company will seek to generate returns above traditional utility returns, thereby increasing shareholder value. The Chesapeake board of directors considered a number of strategic advantages of the merger, including the following:
  - **Increased Scale and Scope.** The Chesapeake board of directors considered that the merger will create a larger, regionally focused energy company serving approximately twice the number of energy customers served presently by Chesapeake. As a result of the merger, the combined company's energy presence in Florida will be more comparable to the regional energy presence Chesapeake currently maintains on the Delmarva Peninsula. At the end of 2008, Chesapeake served approximately 100,000 customers with natural gas or propane on the Delmarva Peninsula and throughout 23 counties in Florida. As a result of the merger, the combined company will serve approximately 200,000 customers with natural gas, propane or electric service on the Delmarva Peninsula and throughout 34 counties in Florida. The combined operations will include sizable customer bases for electric, natural gas and propane in several key markets across Florida including the Southeast, Central, Northeast and Panhandle geographic areas. The increased scale and scope is

expected to result in greater efficiencies provided by economies of scale. These efficiencies are discussed below under "— Synergistic Opportunities."

- **Stronger Utility Business Platform.** Chesapeake's strategy has been to enhance its utility foundation and furthermore to grow its earnings from a stable utility foundation by investing in related businesses and services that provide opportunities for higher returns. The Chesapeake board of directors considered that the merger would result in relative increases of Chesapeake's net income deriving from, and the investment of assets in, regulated utility operations, thereby further enhancing its utility foundation. The merger will increase utility net plant from $280.7 million for Chesapeake on a standalone basis as of December 31, 2008 to $423 million for the combined company on a historical basis as of December 31, 2008.

  The merger will increase Chesapeake's regulatory exposure in Florida. Chesapeake and Florida Public Utilities enjoy favorable relationships with the Florida Public Service Commission. Chesapeake's board of directors views the increased opportunity for the combined company to work with the Florida Public Service Commission as a positive outcome of the merger.

  In addition, Chesapeake's board of directors considered that the merger will create greater diversity among Chesapeake's utility portfolio as a result of the addition of Florida Public Utilities' natural gas and electric distribution businesses. Florida Public Utilities' electric operations provide service to approximately 31,000 customers throughout four counties in Florida. Florida Public Utilities' electric business will expand both Chesapeake's energy portfolio and its utility foundation.

- **Diversified Portfolio of Investments.** The combined company will benefit from a more diversified portfolio of investments. Chesapeake's natural gas business includes service to many large industrial customers, while Florida Public Utilities has a larger percentage of residential customers. The combined company will, therefore, have a larger, diverse customer portfolio in Florida. Additionally, the electric operation will expand Chesapeake's energy portfolio and its utility foundation. Florida Public Utilities' propane business provides a larger foundation in Florida from which the combined company can further grow that business. For Florida Public Utilities shareholders, Chesapeake's Delmarva energy business provides geographic diversity.

- **Common Regulatory Framework and Benefits of Florida's Supportive Regulatory Climate.** The Chesapeake board of directors considered that the merger is expected to provide the combined company with an enhanced opportunity to benefit from the favorable Florida regulatory framework applicable to the combined company's franchised service areas, diversify regulatory risk and provide additional scale in operating the regulated businesses under complex regulations. In addition, Chesapeake's board of directors considered the long history of Florida's Public Service Commission actively promoting natural gas expansion throughout the state.

- **Positioned to Benefit from Future Florida Growth.** Long-term forecasts project Florida to be among the fastest growing states in the country. Although the current economic climate has caused a temporary decline in growth, state projections for Florida anticipate that population growth will begin to slowly increase again in 2010 and accelerate thereafter. The Chesapeake board of directors expects that the combined company will be well-positioned to help meet the energy needs of new residential consumers in the combined service territory, along with the commercial development that typically follows. The Chesapeake board of directors considered how the companies have benefited from Florida's growth historically and how the combined company should benefit from future growth. The Chesapeake board of directors expects the merger to create a stronger company with increased capabilities to serve the future growth.

- **Combined Expertise.** The Chesapeake board of directors believes that the combined company will benefit from each company's experience and expertise in the natural gas and propane distribution businesses. In addition, the Chesapeake board of directors believes that the combined company's natural gas and electric operations will benefit from the regulatory and customer service expertise of each company in Florida. The combined company will be able to effectively utilize in its operations the intellectual capital, technical expertise, and experience of a deeper, more diverse workforce.

- **Impact on Customers.** The Chesapeake board of directors considered the impact that the merger will have on the combined company's customers. The Chesapeake board of directors believes that the merger will benefit customers through economies of scale, the increased availability of capital to extend service to more customers, other operating efficiencies and a continued focus on safety and reliability. The Chesapeake board of directors believes that the merger will result in a reduction in the aggregate amount of rate increases requested for the combined company's natural gas and electric operations, which would benefit the combined company's utility customers in Florida. Further, the Chesapeake board of directors expects the combined company to demonstrate the level of commitment to customer service that customers have come to expect from each company.

- **Synergistic Opportunities.** Chesapeake's board of directors considered that the merger presents opportunities to operate more effectively, creating additional efficiencies at all levels of the combined company and enabling further implementation of best practices. The Chesapeake board of directors considered Chesapeake's preliminary management estimates that the merger is expected to generate cost savings over the first five years after the consummation of the transaction and earnings per share are expected to be neutral to slightly accretive in 2010 and meaningfully accretive in 2011. The expected cost savings are projected to result from elimination of duplicate corporate overhead costs (i.e., audit, legal, insurance, information technology, administrative and other public company costs), as well as operational efficiencies (i.e., billing related costs, facilities and related costs, and other operating efficiencies). Chesapeake's board of directors considered that the cost savings and synergies anticipated to result from the merger should reduce the aggregate amount of rate increases requested in the combined company's natural gas and electric operations, thereby benefiting the combined company's Florida utility customers. With respect to the propane business, the Chesapeake board of directors considered that the combined company will have a larger propane distribution presence in Florida, resulting in an improved cost structure, including increased access to supply channels, new hedging opportunities and greater scale in terms of pricing. Chesapeake's board of directors noted, however, that the expected cost savings and synergies are estimates that may change and that achieving the expected cost savings and synergies is subject to a number of risks and uncertainties.

- **Share Price; Taxability of Merger.** Chesapeake's board of directors took note of the historical stock prices of Chesapeake and Florida Public Utilities, including that the exchange ratio in the merger represented a premium of approximately 25% for the Florida Public Utilities shareholders based upon the average stock price of Florida Public Utilities over the 15 trading days prior to April 15, 2009. Chesapeake's board of directors also took into account the fact that the merger is expected to be a tax-free exchange for the holders of Florida Public Utilities common stock.

- **Financial Considerations and Increased Financial Flexibility.** Chesapeake's board of directors considered the earnings, cash flow, balance sheet and dividend impact of the merger, the historical financial performance of Florida Public Utilities, and historical stock market information. Chesapeake's board of directors noted that while the merger is expected to be neutral to slightly accretive in 2010, it is expected to be meaningfully accretive to earnings per share thereafter. Chesapeake's board of directors further considered the impact on cash flow resulting from the merger and the associated impact on the balance sheet. Chesapeake's board of directors believes that the increased scale and scope resulting from the merger will generate increased financial flexibility and ensure continued access to capital markets.

- **Impact on Credit Profile.** The Chesapeake board of directors considered certain selected credit metrics of the combined company on a pro forma basis as compared to those of Chesapeake on a standalone basis. Chesapeake's board of directors noted that there was not a material change in the consolidated metrics relative to the projected standalone metrics and therefore, does not expect a change in the credit profile of the combined company.

- **Impact of the Merger on Communities.** Chesapeake's board of directors evaluated the expected impact of the merger on the communities in which Chesapeake and Florida Public Utilities are located and which they serve. The Chesapeake board of directors considered the history of each company of being a good corporate citizen, making a difference in their communities and supporting growth of the

communities they serve. The Chesapeake board of directors noted that many of the employees of the companies donate their time and resources to their communities throughout the year while also working to deliver outstanding results. The Chesapeake board of directors believes that the combined company will continue to support many local charitable organizations in the local service areas and that the merger will benefit the local service areas by creating a combined company with enhanced ability to provide a reliable utility infrastructure capable of supporting continued growth in the local communities.

- **Fairness Opinion Presented to Chesapeake's Board of Directors.** Chesapeake's board of directors considered the financial analyses and fairness opinion of Baird that was presented and delivered to the Chesapeake board of directors at its board meeting on April 17, 2009, including Baird's opinion that, based upon and subject to the various factors, assumptions, limitations and qualifications set forth in the opinion, the exchange ratio of 0.405 shares of Chesapeake common stock for each share of Florida Public Utilities common stock in the merger was fair, from a financial point of view, to Chesapeake. The full text of Baird's opinion setting forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with such opinion is attached as Annex B to this joint proxy statement/prospectus. See "Opinion of Chesapeake's Financial Advisor" beginning on page 47.
- **Recommendation of Management.** Chesapeake's board of directors considered management's recommendation in support of the merger.
- **Terms of the Merger Agreement.** Chesapeake's board of directors reviewed the terms of the merger agreement, including the representations and warranties, obligations and rights of the parties under the merger agreement, the conditions to each party's obligation to complete the merger, the instances in which each party is permitted to terminate the merger agreement and the related termination fee payable by Florida Public Utilities in the event of termination of the merger agreement under specified circumstances. See "The Merger Agreement" beginning on page 74 for a detailed discussion of the terms and conditions of the merger agreement.
- **Due Diligence.** Chesapeake's board of directors considered the scope of Chesapeake's due diligence investigation, which included detailed reviews of organizational, operational, financial, commercial, regulatory, legal, employee and other matters related to Florida Public Utilities' business and potential financial, operational and other impacts of the merger on Chesapeake. The Chesapeake board of directors also considered the results of the due diligence investigation, including evaluations of business risks and opportunities presented by the merger and estimates of costs, synergies and cost savings related to the merger.
- **Corporate Governance.** The Chesapeake board of directors considered the impact on the combined company of Chesapeake's existing certificate of incorporation and bylaws and that, after completion of the merger, the Chesapeake board of directors would be composed of Chesapeake's existing ten directors as well as two directors serving on the Florida Public Utilities board of directors prior to completion of the merger.
- **Employment Matters.** The Chesapeake board of directors considered the terms and conditions of the consulting agreement with John T. English, the Chairman, President and Chief Executive Officer of Florida Public Utilities, which will become effective upon completion of the merger, as well as the terms and conditions of the employment agreements with Charles L. Stein, the Chief Operating Officer and Senior Vice President of Florida Public Utilities, and George M. Bachman, the Chief Financial Officer, Corporate Secretary and Treasurer of Florida Public Utilities, each of which will become effective upon completion of the merger.

The Chesapeake board of directors also considered the potential risks of the merger, including the following:

- **Fixed Exchange Ratio.** The Chesapeake board of directors considered that the fixed exchange ratio would not adjust downwards to compensate for declines in the price of Florida Public Utilities common stock prior to the completion of the merger, and that the terms of the merger agreement did not include

termination rights triggered expressly by a decrease in the value of Florida Public Utilities due to a decline in the market price of Florida Public Utilities common stock. The Chesapeake board of directors determined that this structure was appropriate and the risk acceptable in view of: (i) the Chesapeake board of directors' focus on the relative intrinsic values and financial performance of Chesapeake and Florida Public Utilities and the percentage of the combined company to be owned by former holders of Chesapeake common stock; and (ii) the inclusion in the merger agreement of other structural protections such as the ability to terminate the merger agreement under certain circumstances in the event of a material adverse change in Florida Public Utilities' business.

- **Florida Public Utilities' Business Risks.** The Chesapeake board of directors considered certain risks inherent in Florida Public Utilities' business and operations, including risks relating to future rates and returns associated with Florida Public Utilities' regulated business operations and Florida Public Utilities' environmental and other contingent liabilities. Based on reports of management and outside advisors regarding the due diligence process, the Chesapeake board of directors believes that these risks are manageable as part of the ongoing business of the combined company.
- **Regulatory Approvals.** The Chesapeake board of directors considered the regulatory approvals required to complete the merger and the risk that governmental authorities and third parties might seek to impose unfavorable terms or conditions on the required approvals or that such approvals may not be obtained at all. The Chesapeake board of directors further considered the potential length of the regulatory approval process and the period of time Chesapeake may be subject to the merger agreement.
- **Restrictions on Interim Operations.** The Chesapeake board of directors considered the provisions of the merger agreement that impose restrictions on Chesapeake's operations until completion of the merger, and the extent of those restrictions.
- **Integration.** The Chesapeake board of directors evaluated the challenges inherent in the integration of two business enterprises of the size and scope of Chesapeake's Florida operations and Florida Public Utilities, including the possibility that the anticipated cost savings and synergies and other benefits sought to be obtained from the merger might not be achieved in the timeframe contemplated or at all.
- **Personnel.** The Chesapeake board of directors considered the adverse impact that business uncertainty pending completion of the merger could have on the ability to attract, retain and motivate key personnel until the merger is completed. The Chesapeake board of directors also considered the level and impact of job reductions as a result of transaction-related synergies.

The Chesapeake board of directors believes that, overall, the potential benefits of the merger to Chesapeake and Chesapeake's shareholders outweigh the risks, many of which are identified above.

The Chesapeake board of directors realizes that there can be no assurance about future results, including results considered or expected as described in the factors listed above. It should be noted that this explanation of the Chesapeake board of directors' reasoning and all other information presented in this section are forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading "Cautionary Statement Regarding Forward-Looking Statements" on page 30.

Opinion of Chesapeake's Financial Advisor

Chesapeake retained Robert W. Baird & Co. Incorporated to act as its exclusive financial advisor in connection with the proposed merger. On April 17, 2009, Baird delivered to the Chesapeake board of directors an oral opinion, which was confirmed by delivery of a written opinion dated the same date, to the effect that, as of that date, and based upon and subject to the factors and assumptions set forth in the opinion, the exchange ratio of 0.405 provided for in the merger was fair, from a financial point of view, to Chesapeake. Baird does not have any obligation to update, revise or reaffirm its opinion.

The full text of Baird's opinion, dated April 17, 2009, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Baird, is attached as Annex B to this joint proxy statement/prospectus and is incorporated by reference into this joint proxy statement/prospectus. The summary of Baird's opinion set forth below is qualified in its entirety by reference to the full text of the opinion. Chesapeake shareholders are urged to read the opinion

carefully in its entirety. Baird's opinion was delivered to the Chesapeake board of directors for its information and is directed only to the fairness, from a financial point of view, of the exchange ratio to Chesapeake, and does not address any other aspect of the merger, including the merits of the underlying decision by Chesapeake to engage in the merger. Baird's opinion does not constitute a recommendation to any Chesapeake shareholder as to how the shareholder should vote with respect to the proposed merger or any other matter.

In preparing its opinion to the Chesapeake board of directors, Baird performed various financial and comparative analyses, including those described below. The summary set forth below does not purport to be a complete description of the analyses underlying Baird's opinion or the presentation made by Baird to the Chesapeake board of directors. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, Baird did not attribute any particular weight to any analysis or factor considered by it, but rather made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all of its analyses. Accordingly, Baird believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors without considering all of the analyses and factors or the narrative description of the analyses, would create a misleading or incomplete view of the process underlying its opinion.

In performing its analyses, Baird made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of Baird, Chesapeake or Florida Public Utilities. Any estimates contained in the analyses performed by Baird are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than those suggested by such analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, as described above, Baird's opinion was among several factors taken into consideration by the Chesapeake board of directors in making its determination to approve the merger agreement, the merger and the issuance of shares of Chesapeake common stock in the merger. Consequently, Baird's analyses should not be viewed as determinative of the decision of the Chesapeake board of directors or Chesapeake management with respect to the fairness of the exchange ratio provided for in the merger agreement.

In conducting its investigation and analyses and arriving at its opinion, Baird, among other things, did the following:

- reviewed certain internal information, primarily financial in nature, including financial forecasts for the fiscal years ending December 31, 2009 through December 31, 2013 (referred to as the Forecasts), concerning the business and operations of Florida Public Utilities and Chesapeake furnished to it for purposes of its analysis;
- reviewed certain publicly available information including, but not limited to, Florida Public Utilities' and Chesapeake's recent filings with the Securities and Exchange Commission;
- reviewed the draft merger agreement dated April 7, 2009 in the form presented to Chesapeake's board of directors;
- compared the financial position and operating results of Florida Public Utilities and Chesapeake with those of other publicly traded companies it deemed relevant and considered the market trading multiples of such companies;
- compared the proposed financial terms of the merger with the financial terms of other business combinations it deemed relevant;
- considered the present values of the forecasted cash flows of Florida Public Utilities;
- held discussions with members of Florida Public Utilities' and Chesapeake's respective senior management teams concerning Florida Public Utilities' and Chesapeake's respective historical and current financial condition and operating results, as well as the future prospects of Florida Public Utilities; and

- considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which it deemed relevant.

In arriving at its opinion, Baird assumed and relied upon the accuracy and completeness of all of the financial and other information that was publicly available or provided to it by or on behalf of Florida Public Utilities and Chesapeake. Baird was not engaged to independently verify, and did not assume any responsibility to verify, any such information, and Baird assumed that neither Florida Public Utilities nor Chesapeake was aware of any information prepared by Florida Public Utilities, Chesapeake or their respective advisors that might be material to Baird's opinion that was not provided to Baird. Baird assumed that: (i) all material assets and liabilities (contingent or otherwise, known or unknown) of Florida Public Utilities and Chesapeake are as set forth in the their respective financial statements; (ii) the financial statements of Florida Public Utilities and Chesapeake provided to Baird present fairly the results of operations, cash flows and financial condition of Florida Public Utilities and Chesapeake, respectively, for the periods indicated and were prepared in conformity with U.S. generally accepted accounting principles consistently applied; (iii) the Forecasts for Florida Public Utilities and Chesapeake were reasonably prepared on bases reflecting the best available estimates and good faith judgments of Florida Public Utilities' and Chesapeake's respective senior management teams as to the future performance of Florida Public Utilities and Chesapeake, and such Forecasts and related extrapolations (which were reviewed by Chesapeake's management) will be achieved; (iv) the merger will be consummated in accordance with the terms and conditions of the merger agreement without any amendment thereto and without waiver by any party of any of the conditions to its obligations thereunder; (v) in all respects material to Baird's analysis, the representations and warranties contained in the merger agreement are true and correct and that each party will perform all of the covenants and agreements required to be performed by it under the merger agreement; and (vi) all material corporate, governmental, regulatory or other consents and approvals required to consummate the merger have been or will be obtained without the need for divestitures. Baird relied as to all legal matters regarding the merger on the advice of outside legal counsel of Chesapeake. In conducting its review, Baird did not undertake nor obtain an independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of Florida Public Utilities nor make a physical inspection of the properties or facilities of Florida Public Utilities.

Baird's opinion is based upon economic, monetary and market conditions as they existed and could be evaluated on April 17, 2009, and Baird's opinion does not predict or take into account any changes which occurred or may occur, or information which became available or may become available, after April 17, 2009. Furthermore, Baird expressed no opinion as to the price or trading range at which any of Florida Public Utilities' or Chesapeake's securities (including Florida Public Utilities' common stock and Chesapeake's common stock) would or will trade following April 17, 2009.

Financial Analysis. The following is a summary of the material analyses performed by Baird in connection with its opinion to the Chesapeake board of directors dated April 17, 2009.

Selected Company Analysis. Baird reviewed certain publicly available financial information and stock market information for certain publicly traded companies that Baird deemed relevant. The group of selected publicly traded companies reviewed is listed below.

- Alliant Energy Corporation
- CH Energy Group Inc.
- DTE Energy Co.
- NiSource Inc.
- Public Service Enterprise Group Inc.
- Vectren Corp.
- Xcel Energy Inc.
- Centerpoint Energy Inc.
- Dominion Resources Inc.
- Integrys Energy Group Inc.
- Northwestern Corp.
- SCANA Corp.
- Wisconsin Energy Corp.

Baird chose these companies based on a review of publicly traded companies that possessed general business, operating and financial characteristics representative of companies in the industry in which Florida Public Utilities operates. Baird noted that none of the companies reviewed is identical to Florida Public Utilities and that, accordingly, the analysis of such companies necessarily involves complex considerations and judgments concerning differences in the business, operating and financial characteristics of each company and other factors that affect the public market values of such companies.

For each company, Baird calculated the equity market value (defined as the market price per share of each company's common stock multiplied by the total number of diluted common shares outstanding of such company, including net shares issuable upon the exercise of stock options and warrants). In addition, Baird calculated the total market value (defined as the equity market value plus the book value of each company's total debt, preferred stock and minority interests, less cash, cash equivalents and marketable securities). Baird calculated the multiples of each company's total market value to its last twelve months (LTM), estimated 2009 and projected 2010 Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA). Baird also calculated multiples of each company's price per share to its LTM, estimated calendar year 2009 and projected calendar year 2010 diluted earnings per share and to its LTM book value per share. Baird then compared the transaction multiples implied in the merger with the corresponding trading multiples for the selected companies. Stock market and historical financial information for the selected companies was based on information publicly available as of April 15, 2009, and projected financial information was based on research reports publicly available as of such date. In addition, Baird calculated a reference range of implied per share equity values of Florida Public Utilities' common stock of $7.01 to $15.26 per share based on the trading multiples of the selected public companies and compared such values to the per share equity purchase price of $12.44 per share, which was based on the closing prices per share of Chesapeake common stock and Florida Public Utilities common stock as reported on April 15, 2009. Baird compared the implied per share equity values with the per share equity purchase price implied in the merger in concluding that the consideration was fair to the holders of Chesapeake's common stock from a financial point of view.

Select Acquisition Analysis. Baird reviewed certain publicly available financial information concerning completed or pending acquisition transactions that Baird deemed relevant. The group of selected acquisition transactions is listed below.

Target	Acquirer
• EnergySouth Inc.	• Sempra Energy
• Puget Energy Inc.	• Consortium of N.A. Infrastructure Investors
• Energy East Corporation	• Iberdrola S.A.
• SEMCO Energy Inc.	• Cap Rock Energy Corp.
• Peoples Energy Corp.	• Integrys Energy Group Inc.
• Cascade Natural Gas Corp.	• MDU Resources Group Inc.
• Duquesne Light Holdings Inc.	• Macquarie Infrastructure Partners
• Green Mountain Power Corp.	• Northern New England Energy Corp.
• KeySpan Corp.	• National Grid plc
• PacifiCorp	• MidAmerican Energy Holdings Co.

Baird chose these acquisition transactions based on a review of completed and pending acquisition transactions involving target companies that possessed general business, operating and financial characteristics representative of companies in the industry in which Florida Public Utilities operates. Baird noted that none of the acquisition transactions or subject target companies reviewed is identical to the merger or Florida Public Utilities, respectively, and that, accordingly, the analysis of such acquisition transactions necessarily involves complex considerations and judgments concerning differences in the business, operating and financial characteristics of each subject target company and each acquisition transaction and other factors that affect the values implied in such acquisition transactions.

For each transaction, Baird calculated the implied equity purchase price (defined as the purchase price per share of each target company's common stock multiplied by the total number of diluted common shares outstanding of such company, including gross shares issuable upon the exercise of stock options and warrants, less assumed option and warrant proceeds, or alternatively defined as the value attributable to the equity of a target company). In addition, Baird calculated the implied total purchase price (defined as the equity purchase price plus the book value of each target company's total debt, preferred stock and minority interests, less cash, cash equivalents and marketable securities). Baird calculated the multiples of each target company's implied total purchase price to its LTM EBITDA. Baird also calculated multiples of each target company's implied equity purchase price to its LTM net income and book value. In addition, Baird calculated the acquisition premiums paid

in such transactions where the target companies were publicly traded. Baird then compared the transaction multiples and premiums implied in the merger with the corresponding acquisition transaction multiples and premiums for the selected acquisition transactions. Stock market and historical financial information for the selected transaction was based on publicly available information as of the closing date of each respective transaction. In addition, Baird calculated a reference range of implied per share equity values of Florida Public Utilities' common stock of $9.64 to $32.92 per share based on the acquisition transaction multiples of the selected acquisition transactions and compared such values to the per share equity purchase price of $12.44 per share. Baird compared the implied per share equity values with the per share equity purchase price implied in the merger in concluding that the consideration was fair to the holders of Chesapeake's common stock from a financial point of view.

Discounted Cash Flow Analysis. Baird performed a discounted cash flow analysis utilizing Florida Public Utilities' projected unlevered free cash flows (defined as net income excluding after-tax net interest, plus depreciation and amortization, less capital expenditures and increases in net working capital, plus/minus changes in other operating and investing cash flows) from 2009 to 2013, as provided by Chesapeake's senior management. In such analysis, Baird calculated the present values of the unlevered free cash flows from 2009 to 2013 by discounting such amounts at rates ranging from 11.0% to 13.0%. Baird calculated the present values of the free cash flows beyond 2013 by assuming terminal values ranging from 8.0x to 10.0x year 2013 EBITDA and discounting the resulting terminal values at rates ranging from 11.0% to 13.0%. Baird compared the resulting implied per share reference equity values of $9.44 to $15.57 per share with the $12.44 per share equity purchase price implied in the merger in concluding that the consideration was fair to the holders of Chesapeake's common stock from a financial point of view.

Miscellaneous. Pursuant to the terms of Baird's engagement, Chesapeake has agreed to pay Baird (a) a fee of $450,000 upon the delivery of its opinion to the Chesapeake board of directors and (b) a transaction fee of $300,000, all of which is contingent and payable only if the merger is completed. In the event Chesapeake receives a termination fee (see "The Merger Agreement — Termination of Merger Agreement"), Chesapeake will pay Baird $300,000 of such termination fee. Chesapeake also has agreed to reimburse Baird for reasonable expenses incurred by Baird in performing its services and to indemnify Baird and related persons and entities against certain liabilities arising out of Baird's engagement.

Chesapeake retained Baird based upon Baird's industry and transactional experience and expertise and Baird's knowledge of Chesapeake. Baird is an internationally recognized investment banking and advisory firm. Baird, as part of its investment banking business, is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes.

Baird has, in the past, provided financial advisory services to Chesapeake, for which it received its customary compensation. Specifically, Baird served as lead underwriter for Chesapeake's $20 million follow-on equity offering in November 2006. Baird has also regularly consulted with Chesapeake on an informal basis on general corporate finance and strategic matters, and may be engaged by Chesapeake on future matters. Since 1997 Baird has also prepared equity analyst research reports regarding Chesapeake and Baird is likely to provide such reports in the future. In the ordinary course of business, Baird may actively trade in the securities of Chesapeake and Florida Public Utilities for its own account and for the accounts of its customers and, accordingly, may at any time hold long or short positions or effect transactions in such securities.

Recommendation of Florida Public Utilities' Board of Directors and Florida Public Utilities' Reasons for the Merger

After careful consideration, the Florida Public Utilities board of directors has unanimously approved the merger agreement and the transactions contemplated thereby and resolved that the merger and the other transactions contemplated by the merger agreement are fair, advisable and in the best interests of the shareholders of Florida Public Utilities. The Florida Public Utilities board of directors recommends that the shareholders of Florida Public Utilities vote "FOR" the proposal to approve the merger agreement and the merger.

In evaluating the merger agreement, the board consulted with management, the company's legal and financial advisors and considered a number of factors, including but not limited to those discussed below.

Strategic Considerations. The Florida Public Utilities board of directors considered a number of strategic advantages of the merger in comparison to a standalone strategy. These factors included the following:

- the view of the company's prospects and potential future financial performance as an independent company and as a combined company;
- the ability of Florida Public Utilities to compete with its current and potential future competitors within its markets, including other larger companies that may have significantly greater resources or market presence; and
- the specific strengths that Chesapeake could bring to a combined company, including significant experience in the natural gas and propane distribution businesses as well as in the area of utilities regulation.

Financial Considerations. The board of directors considered the financial terms of the merger based on, among other things, the following factors:

- the financial terms of the transaction, including the fixed exchange ratio of 0.405 of a share of Chesapeake common stock for each share of Florida Public Utilities common stock;
- the fact that the merger consideration represents a premium of approximately 25% above the average closing price of Florida Public Utilities common stock over the 15 trading days prior to April 15, 2009, the day the exchange ratio was set by the executives of the respective companies;
- the fact that the merger consideration to be provided to Florida Public Utilities shareholders will allow those shareholders to continue to participate as shareholders in the combined company;
- the current and historical financial condition and results of operations of Florida Public Utilities and of Chesapeake;
- future cash needs of Florida Public Utilities potentially requiring the company to raise substantial funds to meet environmental remediation and pension funding needs in an unstable and uncertain capital market;
- the financial analyses reviewed and discussed with the board of directors of Florida Public Utilities by representatives of Houlihan Lokey, as well as the oral opinion of Houlihan Lokey rendered to the board of directors (which was later confirmed in writing by delivery of Houlihan Lokey's written opinion dated the same date) with respect to the fairness, from a financial point of view, to the holders of Florida Public Utilities common stock of the exchange ratio provided for in the proposed merger pursuant to the merger agreement; and
- the expected treatment of the merger as a tax-free reorganization under the U.S. federal income tax code.

Other considerations. The board of Florida Public Utilities also considered the following:

- the structure of the transaction as a merger, requiring approval by Florida Public Utilities shareholders, which would result in detailed public disclosure and a relatively lengthy period of time prior to completion of the merger during which an unsolicited proposal could be brought forth;
- the merger agreement permits Florida Public Utilities, under certain circumstances, to provide information to, and engage in discussions with, a third party that makes an unsolicited, bona fide acquisition proposal and to terminate the merger agreement to accept a superior proposal;
- the judgment of the Florida Public Utilities board of directors that, although certain terms of the merger agreement — including the $3.4 million termination fee — may make it more costly for a third party to effect a superior proposal, those terms should not preclude a third party with the financial ability to complete a transaction from proposing an acquisition proposal given that $3.4 million represents a relatively small portion of the aggregate consideration that would be payable under the terms of any superior proposal;
- the fiduciary duties of the Florida Public Utilities board of directors;

- the agreement of Chesapeake to maintain a number of specified benefit plans which the Florida Public Utilities board believed would increase the likelihood of a successful integration and operation of the combined company; and
- Chesapeake common stock provides Florida Public Utilities' common shareholders with a more actively traded and liquid security, and provides the potential for risk mitigation through combining with a larger company with greater financial and other resources.

Consideration of Risks and Other Potentially Adverse Factors. The Florida Public Utilities board of directors considered a variety of risks and other potentially adverse factors concerning the merger, including, but not limited, to the following:

- the price of Chesapeake common stock at the time of closing could be lower than the price as of the time of signing the merger agreement and accordingly, the value of the consideration received by the Florida Public Utilities common shareholders in the merger could be less than the value as of the date of the merger agreement;
- the expected synergies and other benefits of the merger might not be fully achieved or may not be achieved within the timeframes expected;
- the conditions to closing the merger, including regulatory approval;
- the risks of the type and nature described above under "Risk Factors" beginning on page 19;
- the merger may not be completed as the result of material adverse conditions imposed by regulatory authorities or otherwise;
- certain provisions of the merger agreement may have the effect of discouraging acquisition proposals from third parties;
- that Florida Public Utilities would be required to pay a termination fee of $3.4 million to Chesapeake if the merger agreement is terminated under certain circumstances;
- the potential for diversion of management and employee attention during the pendency of the merger agreement and merger and the potential effect on Florida Public Utilities' business and relations with customers; and
- the fees and expenses to be incurred by Florida Public Utilities in completing the merger.

The above discussion of the factors considered by the board of Florida Public Utilities is not meant to be an exhaustive list, but does include the material factors considered by the board in determining that the merger is fair to its shareholders and in their best interests. The board did not quantify or assign any relative or specific weight to the various factors that it considered. Rather, the board based its recommendation on the totality of the information presented to and considered by it. In addition, individual members of the Florida Public Utilities board of directors may have given no weight or different weight to different factors.

Opinion of Florida Public Utilities' Financial Advisor

On April 17, 2009, Houlihan Lokey rendered its oral opinion to the board of directors of Florida Public Utilities (which was subsequently confirmed in writing by delivery of Houlihan Lokey's written opinion dated the same date) to the effect that, as of April 17, 2009, the exchange ratio provided for in the proposed merger pursuant to the merger agreement was fair to holders of Florida Public Utilities common stock from a financial point of view.

Houlihan Lokey's opinion was directed to the board of directors of Florida Public Utilities and only addressed the fairness, from a financial point of view, to the holders of Florida Public Utilities common stock of the exchange ratio provided for in the proposed merger pursuant to the merger agreement, and did not address any aspect or implication of the proposed merger. The summary of Houlihan Lokey's opinion in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of its written opinion, which is included as Annex C to this joint proxy statement/prospectus and sets forth

the procedures followed, assumptions made, qualifications and limitations on the review undertaken and other matters considered by Houlihan Lokey in preparing its opinion. However, neither Houlihan Lokey's written opinion nor the summary of its opinion and the related analyses set forth in this joint proxy statement/prospectus are intended to be, and they do not constitute, advice or a recommendation to any shareholder as to how such shareholder should act or vote with respect to any matter relating to the merger.

In arriving at its opinion, Houlihan Lokey:

- reviewed a draft, dated April 15, 2009, of the merger agreement;
- reviewed certain publicly available business and financial information relating to Florida Public Utilities and Chesapeake that Houlihan Lokey deemed to be relevant;
- reviewed certain information relating to the current and future operations, financial condition and prospects of Florida Public Utilities and Chesapeake made available to Houlihan Lokey by the managements of Florida Public Utilities and Chesapeake, respectively, including financial projections prepared by the managements of Florida Public Utilities and Chesapeake relating to the future financial performance of Florida Public Utilities and Chesapeake, respectively;
- spoke with certain members of the managements of Florida Public Utilities and Chesapeake and certain of their representatives and advisors regarding the respective businesses, operations, financial condition and prospects of Florida Public Utilities and Chesapeake, the proposed merger and related matters;
- compared the financial and operating performance of Florida Public Utilities and Chesapeake with that of other public companies that Houlihan Lokey deemed to be relevant;
- reviewed the current and historical market prices and trading volume for Florida Public Utilities' and Chesapeake's publicly traded securities, and the historical market prices and certain financial data of the publicly traded securities of certain other companies that Houlihan Lokey deemed to be relevant;
- compared the relative contributions of Florida Public Utilities and Chesapeake to estimates of certain financial statistics of the combined company resulting from the proposed merger on a pro forma basis;
- reviewed certain potential pro forma financial effects of the proposed merger; and
- conducted such other financial studies, analyses and inquiries and considered such other information and factors as Houlihan Lokey deemed appropriate.

Houlihan Lokey relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to Houlihan Lokey, discussed with or reviewed by Houlihan Lokey, or publicly available, and did not assume any responsibility with respect to such data, material and other information. In addition, managements of Florida Public Utilities and Chesapeake advised Houlihan Lokey, and Houlihan Lokey assumed, that the financial projections reviewed by Houlihan Lokey were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of such managements as to the future financial results and condition of Florida Public Utilities and Chesapeake, and Houlihan Lokey expressed no opinion with respect to such projections or the assumptions on which they were based. Houlihan Lokey relied upon and assumed, without independent verification, that there had been no material change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of Florida Public Utilities or Chesapeake since the date of the most recent financial statements provided to Houlihan Lokey, and that there was no information or any facts that would make any of the information reviewed by Houlihan Lokey incomplete or misleading. Houlihan Lokey did not consider any aspect or implication of any transaction to which Florida Public Utilities or Chesapeake may be a party (other than as specifically described in the opinion with respect to the merger).

Houlihan Lokey relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the merger agreement and all other related documents and instruments that are referred to therein were true and correct, (b) each party to the merger agreement and other related documents and instruments would fully and timely perform all of the covenants and agreements required to be performed

by such party, (c) all conditions to the consummation of the proposed merger would be satisfied without waiver thereof, and (d) the proposed merger would be consummated in a timely manner in accordance with the terms described in the agreements and documents provided to Houlihan Lokey, without any amendments or modifications thereto. Houlihan Lokey also assumed, with Florida Public Utilities' consent, that the proposed merger would be treated as a tax-free reorganization for United States federal income tax purposes. Houlihan Lokey also relied upon and assumed, without independent verification, that (i) the proposed merger would be consummated in a manner that complies in all respects with all applicable federal and state statutes, rules and regulations, and (ii) all governmental, regulatory, and other consents and approvals necessary for the consummation of the proposed merger would be obtained and that no delay, limitations, restrictions or conditions would be imposed or amendments, modifications or waivers made that would result in the disposition of any material portion of the assets of Florida Public Utilities or Chesapeake, or otherwise have an adverse effect on Florida Public Utilities or Chesapeake or any expected benefits of the proposed merger. In addition, Houlihan Lokey relied upon and assumed, without independent verification, that the final form of the merger agreement would not differ in any material respect from the draft of the merger agreement identified above.

Furthermore, in connection with its opinion, Houlihan Lokey was not requested to make, and did not make, any physical inspection or independent appraisal of any of the assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of Florida Public Utilities, Chesapeake or any other party, nor was Houlihan Lokey provided with any such appraisal. Houlihan Lokey did not estimate, and expressed no opinion regarding, the liquidation value of any entity. Houlihan Lokey undertook no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which Florida Public Utilities or Chesapeake is or may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which Florida Public Utilities or Chesapeake is or may be a party or is or may be subject.

Houlihan Lokey was not requested to, and did not, solicit indications of interest from, third parties with respect to the proposed merger, the assets, businesses or operations of Florida Public Utilities, or any alternatives to the proposed merger. Houlihan Lokey's opinion was necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to Houlihan Lokey as of, the date of its opinion. Houlihan Lokey's opinion was rendered during a period of unusual volatility in the financial markets and necessarily assumed the absence of further material changes in the financial, economic and market conditions from those prevailing on the date of Houlihan Lokey's opinion. Houlihan Lokey did not undertake, and is under no obligation, to update, revise, reaffirm or withdraw its opinion, or otherwise comment on or consider events occurring after the date of its opinion. Houlihan Lokey did not express any opinion as to what the value of Chesapeake common stock actually will be when issued pursuant to the proposed merger or the price or range of prices at which Florida Public Utilities common stock or Chesapeake common stock may be purchased or sold at any time. Houlihan Lokey assumed that the shares of Chesapeake common stock to be issued in the proposed merger would be listed on the New York Stock Exchange.

Houlihan Lokey's opinion was furnished for the use and benefit of the board of directors of Florida Public Utilities in connection with its consideration of the proposed merger and may not be used for any other purpose without Houlihan Lokey's prior written consent. Houlihan Lokey has consented to the disclosure of its opinion in this proxy statement/prospectus. Houlihan Lokey's opinion should not be construed as creating any fiduciary duty on Houlihan Lokey's part to any party. Houlihan Lokey's opinion is not intended to be, and does not constitute, a recommendation to the board of directors of Florida Public Utilities, any security holder of Florida Public Utilities or any other person as to how to act or vote with respect to any matter relating to the proposed merger.

Houlihan Lokey's opinion only addressed whether the exchange ratio provided for in the proposed merger pursuant to the merger agreement is fair to the holders of Florida Public Utilities common stock from a financial point of view. Houlihan Lokey was not requested to opine as to, and its opinion did not in any manner address, among other things: (i) the underlying business decision of Florida Public Utilities, Chesapeake, their respective security holders or any other party to proceed with or effect the proposed merger or the value of the consideration to be received by the holders of Florida Public Utilities common stock in the proposed merger as compared to the value of the consideration that could be obtained pursuant to any

alternative transaction that may exist for Florida Public Utilities, (ii) the terms of any arrangements, understandings, agreements or documents related to, or the form or any other portion or aspect of, the proposed merger or otherwise (other than the exchange ratio to the extent expressly specified herein), (iii) the fairness of any portion or aspect of the proposed merger to the holders of any class of securities, creditors or other constituencies of Florida Public Utilities or Chesapeake, or to any other party, except as set forth in its opinion, (iv) the relative merits of the proposed merger as compared to any alternative business strategies that might exist for Florida Public Utilities, Chesapeake or any other party or the effect of any other transaction in which Florida Public Utilities, Chesapeake or any other party might engage, (v) the fairness of any portion or aspect of the proposed merger to any one class or group of Florida Public Utilities' or any other party's security holders vis-à-vis any other class or group of Florida Public Utilities' or such other party's security holders (including without limitation the allocation of any consideration amongst or within such classes or groups of security holders), (vi) whether or not Florida Public Utilities, Chesapeake, their respective security holders or any other party is receiving or paying reasonably equivalent value in the proposed merger, (vii) the solvency, creditworthiness or fair value of Florida Public Utilities, Chesapeake or any other participant in the proposed merger under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or (viii) the fairness, financial or otherwise, of the amount or nature of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the proposed merger, any class of such persons or any other party, relative to the exchange ratio or otherwise. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources. Furthermore, Houlihan Lokey relied, with Florida Public Utilities' consent, on the assessment by Florida Public Utilities, Chesapeake and their respective advisors, as to all legal, regulatory, accounting, insurance and tax matters with respect to Florida Public Utilities, Chesapeake and the proposed merger. The issuance of Houlihan Lokey's opinion was approved by a committee of Houlihan Lokey authorized to approve opinions of this nature.

In preparing its opinion to the board of directors of Florida Public Utilities, Houlihan Lokey performed a variety of analyses, including those described below. The summary of Houlihan Lokey's valuation analyses described below is not a complete description of the analyses underlying Houlihan Lokey's opinion. The preparation of a fairness opinion is a complex process involving various quantitative and qualitative judgments and determinations with respect to the financial, comparative and other analytic methods employed and the adaptation and application of those methods to the unique facts and circumstances presented. As a consequence, neither Houlihan Lokey's opinion nor the analyses underlying its opinion are readily susceptible to partial analysis or summary description. Houlihan Lokey arrived at its opinion based on the results of all analyses undertaken by it and assessed as a whole and did not draw, in isolation, conclusions from or with regard to any individual analysis, analytic method or factor. Accordingly, Houlihan Lokey believes that its analyses must be considered as a whole and that selecting portions of its analyses, analytic methods and factors, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In performing its analyses, Houlihan Lokey considered business, economic, industry and market conditions, financial and otherwise, and other matters as they existed on, and could be evaluated as of, the date of its opinion. No company, transaction or business used in Houlihan Lokey's analyses for comparative purposes is identical to Florida Public Utilities or the proposed merger. While the results of each analysis were taken into account in reaching its overall conclusion with respect to fairness, Houlihan Lokey did not make separate or quantifiable judgments regarding individual analyses. The implied valuation reference ranges indicated by Houlihan Lokey's analyses are illustrative and not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, any analyses relating to the value of assets, businesses or securities do not purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold, which may depend on a variety of factors, many of which are beyond Chesapeake's and Florida Public Utilities' control and the control of Houlihan Lokey. Much of the information used in, and accordingly the results of, Houlihan Lokey's analyses are inherently subject to substantial uncertainty.

Houlihan Lokey's opinion and analyses were provided to the board of directors of Florida Public Utilities in connection with its consideration of the proposed merger and Houlihan Lokey's analyses were among many factors considered by the board of directors of Florida Public Utilities in evaluating the proposed merger. Neither Houlihan Lokey's opinion nor its analyses were determinative of the exchange ratio or of the views of the board of directors of Florida Public Utilities or Florida Public Utilities' management with respect to the proposed merger.

The following is a summary of the material valuation analyses performed in connection with the preparation of Houlihan Lokey's opinion rendered to the board of directors of Florida Public Utilities on April 17, 2009. The analyses summarized below include information presented in tabular format. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the analyses, as well as the methodologies underlying and the assumptions, qualifications and limitations affecting each analysis, could create a misleading or incomplete view of Houlihan Lokey's analyses.

For purposes of its analysis, Houlihan Lokey reviewed a number of financial metrics including:

EBIT — generally the amount of the relevant company's earnings before interest and taxes for a specified time period.

EBITDA — generally the amount of the relevant company's earnings before interest, taxes, depreciation, and amortization for a specified time period.

Unless the context indicates otherwise, equity values used in the selected companies analysis described below were calculated using the closing price of the common stock of the selected companies listed below as of April 16, 2009. Estimates of Net Income for Florida Public Utilities for the fiscal years ending December 31, 2009 and December 31, 2010 were based on estimates provided by Florida Public Utilities' management. Estimates of Net Income for Chesapeake for fiscal years ending December 31, 2009 and December 31, 2010 were based on estimates provided by Chesapeake's management. Estimates of Net Income for the selected companies listed below for the fiscal years ending December 31, 2009 and December 31, 2010 were based on publicly available research analyst estimates for those companies.

Selected Companies Analysis

Houlihan Lokey calculated the multiples of equity value to Net Income and certain other financial data for selected companies in the utilities industry.

The calculated multiples included:

- Equity Value as a multiple of last twelve months (LTM) Net Income;
- Equity Value as a multiple of 2009E Net Income; and
- Equity Value as a multiple of 2010E Net Income.

The following companies were selected because they were deemed to be similar to Florida Public Utilities or Chesapeake in one or more respects which included nature of business, size, diversification, financial performance and geographic concentration. No specific numeric or other similar criteria were used to select the selected companies and all criteria were evaluated in their entirety without application of definitive qualifications or limitations to individual criteria. As a result, a significantly larger or smaller company with substantially similar lines of businesses and business focus may have been included while a similarly sized company with less similar lines of business and greater diversification may have been excluded. Houlihan Lokey identified a sufficient number of companies for purposes of its analysis but may not have included all companies that might be deemed comparable to Florida Public Utilities or Chesapeake as applicable.

The selected companies for Florida Public Utilities were:

- Atmos Energy Corp.
- AGL Resources Inc.

- TECO Energy Inc.
- Progress Energy Inc.
- Centerpoint Energy Inc.

The selected companies analysis for Florida Public Utilities indicated the following high, low, median and mean multiples for the selected utility companies:

Multiple Description	High	Low	Median	Mean
Equity Value as a multiple of:				
LTM Net Income	14.0x	8.2x	11.8x	11.2x
2009E Net Income	11.6x	9.5x	10.3x	10.5x
2010E Net Income	10.7x	8.2x	9.5x	9.6x

The selected companies for Chesapeake were:

- Atmos Energy Corp.
- AGL Resources Inc.
- Piedmont Natural Gas Co. Inc.
- WGL Holdings Inc.
- Laclede Group Inc.
- New Jersey Resources Corp.
- NiSource Inc.

The selected companies analysis for Chesapeake indicated the following high, low, median and mean multiples for selected utility companies:

Multiple Description	High	Low	Median	Mean
Equity Value as a multiple of:				
LTM Net Income	17.2x	7.6x	12.0x	11.9x
2009E Net Income	16.7x	10.0x	12.8x	12.7x
2010E Net Income	15.1x	9.5x	12.1x	11.9x

Houlihan Lokey applied multiple ranges based on the selected companies analysis to corresponding financial data for Florida Public Utilities, including estimates of 2009 Net Income and 2010 Net Income provided by Florida Public Utilities' management, and corresponding data for Chesapeake, including estimates of 2009 Net Income and 2010 Net Income provided by Chesapeake's management. The selected companies analysis indicated (i) an implied exchange ratio reference range of 0.2707 to 0.3712 based on the LTM adjusted Net Income for Florida Public Utilities and Chesapeake, (ii) an implied exchange ratio reference range of 0.2811 to 0.3836 based on the 2009E Net Income for Florida Public Utilities and Chesapeake, and (iii) an implied exchange ratio reference range of 0.3091 to 0.4533 based on the 2010E Net Income of both Florida Public Utilities and Chesapeake, in each case as compared to the 0.405 exchange ratio provided for in the proposed merger.

Discounted Cash Flow Analysis

Houlihan Lokey also calculated the net present value of each of Florida Public Utilities' and Chesapeake's unlevered, after-tax cash flows based on projections provided by managements of Florida Public Utilities and Chesapeake. In performing a discounted cash flow analysis with respect to Florida Public Utilities, Houlihan Lokey applied discount rates ranging from 8.25% to 8.75% based on Florida Public Utilities' estimated weighted average cost of capital and perpetuity growth rates ranging from 2.25% to 2.75%. In addition, based on information provided by management of Florida Public Utilities, Houlihan Lokey treated a non-operating receivable from the sale of Florida Public Utilities' water assets in 2003 as having a value of $5.5 million. In

performing a discounted cash flow analysis with respect to Chesapeake, Houlihan Lokey applied discount rates ranging from 8.75% to 9.25% based on Chesapeake's estimated weighted average cost of capital and perpetuity growth rates ranging from 2.50% to 3.00%. The discounted cash flow analyses indicated an implied exchange ratio reference range of 0.2581 to 0.4743, as compared to the 0.405 exchange ratio provided for in the proposed merger.

Other Considerations

Contribution Analysis. Houlihan Lokey also reviewed the respective contributions of Florida Public Utilities and Chesapeake to various financial metrics for the pro forma combined entity resulting from the proposed merger, without giving effect to any cost savings or synergies. This analysis indicated the following relative contributions of Florida Public Utilities relative to the pro forma ownership of Florida Public Utilities' shareholders in the combined entity resulting from the proposed merger:

	Florida Public Utilities Contribution	Implied Pro Forma Florida Public Utilities Ownership
LTM EBITDA	31.5%	26.3%
2009E EBITDA	31.7%	26.3%
LTM EBIT	23.4%	26.3%
2009E EBIT	25.1%	26.3%
Net Property Plant and Equipment	31.9%	26.3%
LTM Net Income	20.5%	26.3%
2009E Net Income	23.4%	26.3%

Historical Trading Ratio. Houlihan Lokey also noted the following historical trading ratios of Florida Public Utilities common stock and Chesapeake common stock as of April 16, 2009, as compared to the 0.405 exchange ratio provided for in the proposed merger:

	Share Prices		
Stock Price	Florida Public Utilities	Chesapeake	Historical Trading Ratio
Current	$10.49	$30.78	0.3408
5-Day Trading Avg.	$10.15	$30.60	0.3318
10-Day Trading Avg.	$ 9.93	$30.27	0.3280
15-Day Trading Avg.	$ 9.89	$30.33	0.3260
30-Day Avg.	$ 9.75	$29.80	0.3272
60-Day Avg.	$ 9.70	$27.93	0.3474
90-Day Avg.	$ 9.86	$28.17	0.3501
180-Day Avg.	$10.08	$29.19	0.3452
1-Year Avg.	$11.03	$28.97	0.3809
2-Year Avg.	$11.50	$30.68	0.3747

Other Matters

Florida Public Utilities engaged Houlihan Lokey pursuant to a letter agreement dated as of March 14, 2008 to act as Florida Public Utilities' financial advisor in connection with the proposed merger. Florida Public Utilities engaged Houlihan Lokey based on Houlihan Lokey's experience and reputation. Houlihan Lokey is regularly engaged to render financial opinions in connection with mergers and acquisitions, financial restructurings, tax matters, ESOP and ERISA matters, corporate planning, and for other purposes. Houlihan Lokey acted as financial advisor to Florida Public Utilities in connection with the proposed merger and will receive a fee of $600,000 upon the consummation of the proposed merger. In addition, Houlihan Lokey has already received a $50,000 retainer and a $250,000 fee for rendering its opinion, which fees were not contingent upon the successful completion of the proposed merger. Florida Public Utilities has also agreed to

reimburse certain of Houlihan Lokey's expenses and to indemnify Houlihan Lokey and certain related parties for certain potential liabilities arising out of its engagement.

Houlihan Lokey and its affiliates may in the future provide investment banking, financial advisory and other financial services to Florida Public Utilities, Chesapeake and other participants in the proposed merger and certain of their respective affiliates for which Houlihan Lokey and such affiliates may receive compensation. In the ordinary course of business, certain of Houlihan Lokey's affiliates, as well as investment funds in which they may have financial interests, may acquire, hold or sell, long or short positions, or trade or otherwise effect transactions, in debt, equity, and other securities and financial instruments (including loans and other obligations) of, or investments in, Florida Public Utilities, Chesapeake, or any other party that may be involved in the proposed merger and their respective affiliates or any currency or commodity that may be involved in the proposed merger.

Forward-Looking Financial Information

The forward-looking financial information presented below is not intended to be added together, and adding the forward-looking financial information for the two companies would not represent the results the combined company will achieve if the merger is completed.

Chesapeake Forward-Looking Financial Information

Chesapeake does not as a matter of course make public projections of future earnings, profitability or other results. However, in the course of its discussions with Florida Public Utilities leading up to the execution of the merger agreement, Chesapeake provided Florida Public Utilities, on a confidential basis, with some operating and financial information which was not publicly available. The information provided to Florida Public Utilities and to both Chesapeake's and Florida Public Utilities' financial advisors included forward-looking financial information for years 2009 through 2013, portions of which were used by Florida Public Utilities and the financial advisors. The forward-looking financial information was prepared, in November of 2008, based upon projections developed by Chesapeake through a regular planning and forecasting process that was solely for internal use. The forward-looking financial information provided to Florida Public Utilities and summarized below was not prepared with a view toward public disclosure or with a view toward complying with accounting principles generally accepted in the United States of America, the published guidelines of the Securities and Exchange Commission (the "SEC") regarding projections or the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. While Chesapeake's management believes that the information was prepared on a reasonable basis and reflected the best available estimates and judgments at the time of its preparation, the inclusion of this information should not be regarded as an indication that any of Chesapeake, Florida Public Utilities or any other recipient of this information considered, or now considers, it to be necessarily predictive of actual future results. The forward-looking financial information provided to Florida Public Utilities has not been updated, and readers of this joint proxy statement/prospectus are cautioned not to rely on this forward-looking financial information. The information is being included in this joint proxy statement/prospectus because it was provided to the financial advisors for Chesapeake and Florida Public Utilities and was relied upon by them in connection with their analyses of the proposed transaction.

Neither Chesapeake's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the forward-looking financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for the forward-looking financial information.

The following table presents forward-looking financial information of Chesapeake for years 2009 through 2013 (in thousands, except per share data) which was provided to and relied upon by each of the financial advisors of Chesapeake and Florida Public Utilities.

	For the Year Ending December 31,				
	2009	2010	2011	2012	2013
Gross Margin	$99,940	$106,347	$111,697	$117,152	$122,359
EBITDA	$43,418	$ 47,119	$ 50,351	$ 52,921	$ 55,240
Operating Income	$31,981	$ 34,907	$ 37,464	$ 39,359	$ 41,003
Net Income	$14,529	$ 15,763	$ 16,765	$ 17,958	$ 19,047
Earnings per Share	$ 2.096	$ 2.197	$ 2.301	$ 2.426	$ 2.532
Capital Expenditures	$34,776	$ 30,977	$ 29,155	$ 28,003	$ 29,153

EBITDA stands for earnings before interest, taxes, depreciation and amortization. Gross margin and EBITDA are non-GAAP financial measures that Chesapeake's management uses to measure business performance. Chesapeake defines gross margin as operating revenue less the cost of sales including the purchased cost of natural gas and propane and the cost of labor spent on direct revenue-producing activities. Chesapeake calculates EBITDA by adding back depreciation and amortization expense and depreciation and accretion included in other operating costs to operating income.

The Chesapeake forward-looking financial information was based upon various assumptions, including the following principal assumptions:

- Normal weather in the forward-looking periods;
- Continued capital investments and related increases in earnings from those investments;
- No significant changes to economic or industry conditions in Chesapeake's markets;
- No significant regulatory changes to Chesapeake's rates and/or markets;
- Chesapeake's rate-regulated utility operations earning approximately their respective authorized rates of return or seeking rate actions that enable them to earn approximately their respective authorized rates of return; and
- Customer growth consistent with Chesapeake's past experience.

The estimates and assumptions underlying the forward-looking financial information are inherently uncertain and, though considered reasonable by the management of Chesapeake as of the date of its preparation, are subject to a wide variety of significant financial, operational, regulatory, legal and environmental risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking financial information. See "Risk Factors" beginning on page 19. Accordingly, there can be no assurance that the forward-looking results are indicative of the future performance of Chesapeake or that actual results will not differ materially from those presented in the forward-looking financial information. Inclusion of the forward-looking financial information in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the forward-looking financial information will be achieved.

See "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 30.

Chesapeake does not generally publish its business plans and strategies or make external disclosures of its anticipated financial position or results of operations. Accordingly, Chesapeake does not intend to update or otherwise revise the forward-looking financial information to reflect circumstances existing since its preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, Chesapeake does not intend to update or revise the forward-looking financial information to reflect changes in general economic or industry conditions.

The information concerning forward-looking financial information provided by Chesapeake is not included in this joint proxy statement/prospectus in order to induce any shareholder to vote in favor of the merger agreement or to acquire securities of Chesapeake.

Florida Public Utilities Forward-Looking Financial Information

Florida Public Utilities does not as a matter of course make public projections of future earnings, profitability or other results. However, in the course of its discussions with Chesapeake leading up to the execution of the merger agreement, Florida Public Utilities provided, on a confidential basis, to Chesapeake and to both Chesapeake's and Florida Public Utilities' financial advisors some business and financial information which was not publicly available, including certain projections. The information prepared in April of 2009 and provided to the parties included forward-looking financial information for years 2009 through 2013 based upon projections developed by Florida Public Utilities through a regular budgeting process solely for internal use. The following table presents forward-looking financial information of Florida Public Utilities for years 2009 through 2013 provided to and relied upon by Florida Public Utilities' financial advisor in rendering its fairness opinion (in thousands, except per share data).

	For the Year Ending December 31,				
	2009	2010	2011	2012	2013
Gross Profit	$55,740	$56,460	$58,708	$61,374	$63,868
EBITDA	$20,151	$22,506	$23,097	$23,813	$24,337
Operating Income	$10,733	$12,789	$12,997	$13,315	$13,426
Net Income	$ 4,435	$ 5,542	$ 5,661	$ 5,827	$ 6,008
Earnings per Share	$ 0.72	$ 0.89	$ 0.91	$ 0.93	$ 0.95
Capital Expenditures	$14,402	$19,218	$15,811	$14,444	$14,579

Gross profit is a financial measure defined as operating revenue less the cost of sales including the purchased cost of natural gas, electricity and propane and the cost of labor spent on direct revenue-producing activities. Gross profit is a comparable financial measure as gross margin used by Chesapeake in measuring business performance. EBITDA is a non-GAAP financial measure and Florida Public Utilities defines EBITDA as operating income before depreciation and amortization. The operating income excludes the merchandise and service revenue and related expenses, as well as interest expense. Florida Public Utilities' EBITDA presented above is a comparable financial measure to EBITDA used by Chesapeake.

The Florida Public Utilities forward-looking financial information provided to Chesapeake was based upon various assumptions, including the following principal assumptions:

- Normal weather in the forward-looking periods;
- Successful outcome of electric and natural gas rate increase proceedings in 2008 and 2009;
- No significant changes to economic or industry conditions in Florida Public Utilities' markets;
- No significant regulatory changes to Florida Public Utilities' rates, except for the current rate proceedings, or markets;
- Amending the pension plan in 2009 to freeze compensation rates at the 2009 levels and providing two additional service years in an effort to reduce anticipated future pension expenses; and
- No significant change in environmental contingencies.

In connection with discussions concerning the merger, Chesapeake prepared separate forward-looking financial information for Florida Public Utilities for years 2009 through 2013 solely for internal use. Since Chesapeake operates in similar businesses as Florida Public Utilities and is familiar with the Florida regulatory environment with regard to the natural gas business, Chesapeake formulated its own assumptions about market conditions, the timing, necessity and outcome of current and future rate proceedings. Although Chesapeake obtained the forward-looking financial information prepared by Florida Public Utilities, Chesapeake and its financial advisor used the following Florida Public Utilities forward-looking financial information prepared by

Chesapeake, in April of 2009, in their consideration of the merger. The following table presents forward-looking financial information of Florida Public Utilities for years 2009 through 2013 prepared by Chesapeake (in thousands, except per share data).

	For the Year Ending December 31,				
	2009	2010	2011	2012	2013
Gross Profit	$53,900	$56,768	$58,567	$60,484	$62,469
EBITDA	$18,312	$22,816	$22,957	$22,924	$22,940
Operating Income	$ 8,893	$13,097	$12,856	$12,426	$12,028
Net Income	$ 3,086	$ 5,623	$ 5,353	$ 5,045	$ 4,774
Earnings per Share	$ 0.499	$ 0.906	$ 0.855	$ 0.799	$ 0.750
Capital Expenditures	$ 9,402	$12,000	$12,000	$12,000	$12,000

Gross profit and EBITDA in the forward-looking information of Florida Public Utilities prepared by Chesapeake have the same definition and meaning as gross profit and EBITDA in the information prepared by Florida Public Utilities.

The forward-looking financial information of Florida Public Utilities prepared by Florida Public Utilities and the forward-looking financial information of Florida Public Utilities prepared by Chesapeake were not prepared with a view toward public disclosure or with a view toward complying with accounting principles generally accepted in the United States of America, the published guidelines of the SEC regarding projections or the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information. While both Florida Public Utilities' management and Chesapeake's management believe that its respective information was prepared on a reasonable basis and reflected the best available estimates and judgments at the time of its preparation, the inclusion of these sets of information should not be regarded as an indication that any of Florida Public Utilities, Chesapeake or any other recipient of this information considered, or now considers, them to be necessarily predictive of actual future results. Both of the Florida Public Utilities forward-looking financial information have not been updated, and readers of this joint proxy statement/prospectus are cautioned not to rely on these sets of forward-looking financial information. The information is being included in this joint proxy statement/prospectus because it was provided to the financial advisors for Chesapeake and Florida Public Utilities and was relied upon by them in connection with their analyses of the proposed transaction.

Neither Florida Public Utilities' independent auditors, Chesapeake's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the forward-looking financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for the forward-looking financial information.

The estimates and assumptions underlying both sets of the Florida Public Utilities forward-looking financial information are inherently uncertain and, though considered reasonable by each management as of the date of preparation with respect to the estimates and assumptions underlying the forward-looking financial information it prepared, are subject to a wide variety of significant financial, operational, regulatory, legal and environmental risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking financial information. See "Risk Factors" beginning on page 19. Accordingly, there can be no assurance that the forward-looking results are indicative of the future performance of Florida Public Utilities or that actual results will not differ materially from those presented in the forward-looking financial information. Inclusion of the forward-looking financial information in this joint proxy statement/prospectus should not be regarded as a representation by any person that the results contained in the forward-looking financial information will be achieved.

See "Cautionary Statement Regarding Forward-Looking Statements" beginning on page 30.

Florida Public Utilities does not generally publish its business plans and strategies or make external disclosures of its anticipated financial position or results of operations. Accordingly, Florida Public Utilities and Chesapeake do not intend to update or otherwise revise the forward-looking financial information of

Florida Public Utilities to reflect circumstances existing since their preparation or to reflect the occurrence of unanticipated events, even in the event that any or all of the underlying assumptions are shown to be in error. Furthermore, Florida Public Utilities and Chesapeake do not intend to update or revise the forward-looking financial information to reflect changes in general economic or industry conditions.

The information concerning Florida Public Utilities forward-looking financial information prepared by Florida Public Utilities and Chesapeake are not included in this joint proxy statement/prospectus in order to induce any shareholder to vote in favor of the merger agreement.

Interests of Florida Public Utilities' Directors and Executive Officers in the Merger

In considering the recommendation of the Florida Public Utilities board of directors with respect to the merger agreement, Florida Public Utilities' shareholders should be aware that some of Florida Public Utilities' executive officers and directors have interests in the merger and have arrangements that are different from, or in addition to, those of Florida Public Utilities' shareholders generally. The Florida Public Utilities board of directors was aware of these interests and considered them, among other matters, in reaching its decisions to approve the merger agreement and to recommend that Florida Public Utilities' shareholders vote in favor of approving the merger agreement and the merger.

Consulting Agreement with Mr. English. Florida Public Utilities and John T. English, the Chairman, President and Chief Executive Officer of Florida Public Utilities, entered into an employment agreement dated August 21, 2008. In connection with execution of the merger agreement, on April 17, 2009, Chesapeake, Florida Public Utilities and Mr. English entered into a consulting agreement that is effective only upon consummation of the merger. In the event that the merger does not close, Mr. English's employment agreement dated August 21, 2008 will remain in effect.

Pursuant to the consulting agreement, Mr. English agreed that, effective as of the closing of the merger, his employment agreement with Florida Public Utilities will be terminated and he will no longer be entitled to any further unearned compensation, severance or benefits under the employment agreement. Mr. English agreed to provide consulting services to the combined company for up to 400 hours per year for up to 24 months after the closing of the merger. In addition, Mr. English agreed to non-solicitation and non-competition covenants for a two-year period commencing on April 17, 2009.

In consideration for Mr. English agreeing to the foregoing, within 15 days of closing of the merger, the combined company will pay Mr. English a lump sum change in control payment of $780,000, subject to reduction to avoid triggering an excise tax obligation under Section 4999 of the Internal Revenue Code of 1986, as amended, or the Code. In the event the change in control payment is subject to excise tax imposed under Section 4999 of the Code, Chesapeake will pay Mr. English a "gross-up payment" (as defined in the consultant agreement) such that he is placed in the same after-tax position as if no excise tax had been imposed.

During the consulting term, Chesapeake will pay Mr. English a consulting fee of $8,500 per month, or portion thereof, in which Mr. English provides consulting services and reimburse Mr. English for reasonable out of pocket expenses incurred in connection with providing the consulting services.

Pursuant to the consulting agreement, Chesapeake has the right, subject to Mr. English's consent, to extend the consulting term, on the terms described above or otherwise agreed upon by Chesapeake and Mr. English, for additional one-year periods.

New Employment Agreements with Messrs. Stein and Bachman. Florida Public Utilities is a party to existing employment agreements, dated August 21, 2008, with each of Charles L. Stein, the Chief Operating Officer and Senior Vice President of Florida Public Utilities, and George M. Bachman, the Chief Financial Officer, Corporate Secretary and Treasurer of Florida Public Utilities, referred to below as the existing employment agreements. In connection with execution of the merger agreement, on April 17, 2009, Chesapeake and Florida Public Utilities entered into amended and restated employment agreements with each of Messrs. Stein and Bachman, referred to below as the new employment agreements, that are effective only

upon consummation of the merger. In the event that the merger does not close, the existing employment agreements will remain in effect.

Pursuant to the new employment agreements, each of Messrs. Stein and Bachman has agreed that, effective as of the closing of the merger, his existing employment agreement will be terminated and he will no longer be entitled to any further unearned compensation, severance or benefits under his existing employment agreement.

Pursuant to new employment agreements, Messrs. Stein and Bachman will serve as the Chief Operating Officer and Chief Financial Officer, respectively, of Florida Public Utilities for a period of three years, referred to below as the employment period, commencing on the date of the closing of the merger; provided that, in the event of a "change of control" (as defined in the new employment agreements) of Chesapeake, the term of employment will be automatically extended, referred to below as the extended term, for the shorter of three years or the period until Mr. Stein or Mr. Bachman, as applicable, attains the earliest age, if any, at which his compulsory retirement is permitted under the Age Discrimination in Employment Act of 1967, as amended.

As compensation for their services under the new employment agreements, Messrs. Stein and Bachman will receive annual base salaries in amounts to be determined by the compensation committee of the Chesapeake board of directors, which amounts, in the case of Mr. Stein, will not be less than his current base salary of $191,900 and, in the case of Mr. Bachman, will not be less than his current base salary of $175,900. Messrs. Stein and Bachman will also be eligible for additional compensation under Florida Public Utilities' incentive compensation plan established by the compensation committee and approved by the Chesapeake board, and tied to performance criteria. Pursuant to the new employment agreements, Messrs. Stein and Bachman are eligible for minimum incentive compensation awards of 25% of base salary as determined annually by the Chesapeake board of directors during the employment period. In addition, they are eligible to participate in all benefit programs maintained by Florida Public Utilities for its most senior executives and they will be reimbursed for customary business and travel expenses.

Pursuant to the new employment agreements, in consideration of Messrs. Stein and Bachman agreeing to remain with Florida Public Utilities after the closing of the merger, the combined company, within 15 days of closing of the merger, will pay Messrs. Stein and Bachman lump sum stay bonus payments of $575,000 and $520,000, respectively, subject to reduction to avoid triggering an excise tax obligation under Section 4999 of the Code. In the event the stay bonus payment is subject to excise tax imposed under Section 4999 of the Code, Florida Public Utilities will pay the applicable executive a "gross-up payment" such that he is placed in the same after-tax position as if no excise tax has been imposed.

Under the new employment agreements, if Mr. Stein or Mr. Bachman terminates his new employment agreement for "good reason" (as defined in the new employment agreements), he will be entitled to:

- receive his annual base salary and benefits accrued through the date of termination plus a lump sum payment equal to the sum of his annual base salary in effect on the date of termination that would be payable over the balance of the employment period and the annual incentive award (based on the highest award actually received during the employment term if the amount is otherwise undetermined for any portion of the employment term) that would be payable over the balance of the employment period;

- be provided the same benefits for the balance of the employment period to the extent permitted under law (or, if the continuation of such benefits is not permitted under law or other benefits and payments would not be subject to Section 409A of the Code, he will receive a cash payment equal to the actuarial equivalent of such benefits); and

- receive an additional lump sum payment of an amount equal to the cash value of accrued untaken vacation or paid time off.

If Mr. Stein's or Mr. Bachman's new employment agreement is terminated without "good cause" (as defined in the new employment agreements) during the extended term after a change in control of Chesapeake,

the applicable executive is entitled to receive in cash the sum of all accrued but unpaid salary, bonus, vacation pay and expense reimbursement plus the following:

- an amount equal to the product of multiplying his annual base salary on the day immediately prior to the date of termination by three years, referred to below as the covered period;
- an amount equal to the then present value of the additional benefits that would have been paid to him under Florida Public Utilities' retirement plans if he had continued to be employed under the new employment agreement during the covered period;
- an amount equal to the aggregate of Florida Public Utilities' contributions to its savings plan in respect of him that were not vested immediately prior to the date of termination but that would have been vested at the end of the covered period if he had remained employed by Florida Public Utilities for the duration of the covered period; and
- an amount equal to the product of multiplying the average of the annual aggregate benefits awarded to him under all bonus, incentive compensation or performance-based compensation programs of Florida Public Utilities in which he was a participant in each of the three calendar years preceding the calendar year in which the termination occurs by the covered period.

The new employment agreements for Messrs. Stein and Bachman include standard Chesapeake change in control provisions and covenants regarding confidentiality and non-solicitation and retain the salary arrangements that exist in their existing employment agreements.

Chesapeake Board Positions. When the merger is completed, two current members of Florida Public Utilities' board of directors will be appointed to Chesapeake's board of directors. The members of Florida Public Utilities' board of directors who are added to Chesapeake's board of directors will receive customary fees from Chesapeake for being a director in accordance with Chesapeake's director compensation policy. These fees are comparable to fees received by directors of Florida Public Utilities pursuant to its non-employee director compensation policy. As of the date of this joint proxy statement/prospectus, Chesapeake and Florida Public Utilities have not identified the members of Florida Public Utilities' board of directors who will be appointed to Chesapeake's board of directors.

Indemnification and Insurance. The merger agreement provides that, upon completion of the merger, Chesapeake will, to the fullest extent permitted by law, indemnify, hold harmless and advance expenses to all present and former directors and officers of Florida Public Utilities with respect to all acts or omissions occurring before the completion of the merger.

The merger agreement also provides that for a period of six years after the merger is completed, Chesapeake will provide directors' and officers' liability insurance for the present and former directors and officers of Florida Public Utilities with respect to claims arising from facts or events occurring before the merger is completed. This directors' and officers' liability insurance will contain at least the same coverage and amounts, and terms and conditions no less advantageous, as Florida Public Utilities' existing coverage, provided that Chesapeake is not required to pay annual premiums in excess of 200% of the last annual premium paid by Florida Public Utilities prior to April 17, 2009, but in such case is obligated to purchase as much coverage as reasonably practicable for such amount.

Interests of Chesapeake's Directors and Executive Officers in the Merger

The merger does not constitute a change in control under Chesapeake's compensation plans or the employment agreements with its executive officers.

Listing of Chesapeake Common Stock

It is a condition to the completion of the merger that the shares of Chesapeake common stock issuable to Florida Public Utilities shareholders pursuant to the merger agreement be approved for listing on the New York Stock Exchange (in the form of an official notice of issuance). Chesapeake has filed a listing application with the New York Stock Exchange to list the Chesapeake common shares to be issued in the merger.

Delisting and Deregistration of Florida Public Utilities Common Stock

If the merger is completed, Florida Public Utilities will delist its common stock from the NYSE Amex and will deregister its common stock under the Securities and Exchange Act of 1934, as amended (referred to as the Exchange Act). The common shareholders of Florida Public Utilities will become common shareholders of Chesapeake and their rights as common shareholders of Chesapeake will be governed by Delaware law and by Chesapeake's certificate of incorporation and bylaws. See "Comparison of Shareholder Rights" beginning on page 105.

Dividends

The most recent quarterly dividend declared by Chesapeake is $0.315 per share of common stock payable on October 5, 2009. Chesapeake's current dividend is $1.26 per share of common stock on an annual basis. The most recent quarterly dividend declared by Florida Public Utilities is $0.12 per share of common stock payable on October 1, 2009. Florida Public Utilities' current dividend is $0.48 per share of common stock on an annual basis.

The merger agreement provides that Chesapeake and Florida Public Utilities may continue to pay their respective regular quarterly cash dividends in amounts consistent with past practice and neither Chesapeake nor Florida Public Utilities currently anticipates making any changes to its dividend policy prior to the consummation of the merger.

The boards of directors of Chesapeake and Florida Public Utilities will continue to evaluate their respective dividend policies in light of business, financial and regulatory considerations.

After the merger, Chesapeake expects to pay dividends in an amount consistent with the dividend policy of Chesapeake in effect immediately prior to the consummation of the merger. The payment of dividends by Chesapeake, however, will be subject to approval and declaration by the Chesapeake board of directors and will depend on a variety of factors, including business, financial and regulatory considerations and the amount of dividends paid to it by its subsidiaries.

Material Federal Income Tax Consequences of the Merger

The following general discussion sets forth the anticipated material United States federal income tax consequences of the merger to U.S. holders (as defined below) of Chesapeake common stock and Florida Public Utilities common stock. This discussion does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any United States federal laws other than those pertaining to income tax. This discussion is based upon the Internal Revenue Code of 1986, as amended (referred to as the Code), the regulations promulgated under the Code and court and administrative rulings and decisions, all as in effect on the date of this document. These laws may change, possibly retroactively, and any change could affect the accuracy of the statements and conclusions set forth in this discussion.

This discussion addresses only those Chesapeake and Florida Public Utilities shareholders that hold their Chesapeake common stock and Florida Public Utilities common stock as a capital asset within the meaning of Section 1221 of the Code. Further, this discussion does not address all aspects of U.S. federal income taxation that may be relevant to a holder of Chesapeake common stock or Florida Public Utilities common stock in light of that shareholder's particular circumstances or to a shareholder subject to special treatment under the U.S. federal income tax laws, including if such shareholder is:

- a financial institution;
- a tax-exempt organization;
- an S corporation or other pass-through entity (or an investor in an S corporation or other pass-through entity);
- an insurance company;
- a mutual fund;

- a dealer or broker in stocks and securities, or currencies;
- a trader in securities that elects mark-to-market treatment;
- a holder of Chesapeake common stock or Florida Public Utilities common stock subject to the alternative minimum tax provisions of the Code;
- a holder of Chesapeake common stock or Florida Public Utilities common stock that received Chesapeake common stock or Florida Public Utilities common stock, as applicable, through the exercise of an employee stock option, through a tax-qualified retirement plan or otherwise as compensation;
- a person that is not a U.S. holder (as defined below);
- a person that has a functional currency other than the U.S. dollar;
- a holder of Chesapeake common stock or Florida Public Utilities common stock that holds Chesapeake common stock or Florida Public Utilities common stock, as applicable, as part of a hedge, straddle, constructive sale, conversion or other integrated transaction; or
- a U.S. expatriate.

Determining the actual tax consequences of the merger to any Chesapeake and Florida Public Utilities shareholders may be complex. They will depend on each shareholder's specific situation and on factors that are not within Chesapeake's and Florida Public Utilities' control. Each Chesapeake and Florida Public Utilities shareholder should consult with his or her own tax advisor as to the tax consequences of the merger in his or her particular circumstances, including the applicability and effect of the alternative minimum tax and any state, local, foreign or other tax laws and the impact of changes in those laws.

For purposes of this discussion, the term "U.S. holder" means a beneficial owner of Chesapeake common stock or Florida Public Utilities common stock that is for U.S. federal income tax purposes (i) an individual citizen or resident of the United States, (ii) a corporation, or entity treated as a corporation, organized in or under the laws of the United States or any state thereof or the District of Columbia, (iii) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes or (iv) an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source.

If a partnership holds Chesapeake common stock or Florida Public Utilities common stock, the tax treatment of a partner in such partnership will generally depend on the status of the partners and the activities of the partnership. A partner in a partnership holding Chesapeake common stock or Florida Public Utilities common stock should consult its tax advisor.

General. Chesapeake and Florida Public Utilities have structured the merger to qualify as a tax-free reorganization for U.S. federal income tax purposes. On the date this registration statement becomes effective, Chesapeake and Florida Public Utilities will have received a written opinion from Baker & Hostetler LLP, counsel to Chesapeake, to the effect that for U.S. federal income tax purposes, the merger will constitute a reorganization within the meaning of section 368(a) of the Code. It is a condition to the completion of the merger that Baker & Hostetler LLP confirm its opinion as of the closing date of the merger. Neither Chesapeake nor Florida Public Utilities intends to waive this condition. If the tax opinion to be delivered as of the closing is materially different from the opinions respecting the material U.S. federal income tax considerations expressed herein under the heading "Material Federal Income Tax Consequences of the Merger," Chesapeake and Florida Public Utilities would not effect the merger without recirculating this joint proxy statement/prospectus after revising the respective sections appropriately and resoliciting the approvals of their shareholders. The tax opinion relies on the Code, the regulations promulgated under the Code, court and administrative rulings and decisions and assumptions, including assumptions regarding the absence of changes in existing facts and law and the completion of the merger in the manner contemplated by the merger agreement, and representations and covenants made by Chesapeake, Florida Public Utilities and others, including those contained in certificates of officers of Chesapeake and Florida Public Utilities. The accuracy

of those representations, covenants or assumptions may affect the conclusions set forth in the tax opinions, in which case the tax consequences of the merger could differ from those discussed here. Opinions of counsel neither bind the IRS nor preclude the IRS from adopting a contrary position.

United States Federal Income Tax Consequences to Florida Public Utilities Common Shareholders. Subject to the qualifications and limitations set forth above under the heading "Material Federal Income Tax Consequences of the Merger — General," the material U.S. federal income tax consequences of the merger will be as follows:

- A holder of Florida Public Utilities common stock will not recognize any gain or loss upon the exchange of that shareholder's shares of Florida Public Utilities common stock for shares of Chesapeake common stock in the merger, except that a gain or loss will be recognized on the receipt of cash instead of a fractional share of Chesapeake common stock;
- To the extent that a holder of Florida Public Utilities common stock receives cash instead of a fractional share of Chesapeake common stock, the holder will be required to recognize a gain or loss, measured by the difference between the amount of cash received and the portion of the tax basis of that holder's shares of Florida Public Utilities common stock allocable to that fractional share of Chesapeake common stock. This gain or loss will be a capital gain or loss and will be a long-term capital gain or loss if the holding period for the share of Florida Public Utilities common stock exchanged for the fractional share of Chesapeake common stock is more than one year as of the effective date of the merger. The deductibility of capital losses is subject to limitations;
- A holder of Florida Public Utilities common stock will have a tax basis in the Chesapeake common stock received in the merger equal to (1) the tax basis of the Florida Public Utilities common stock surrendered by that holder in the merger, less (2) any tax basis of the Florida Public Utilities common stock surrendered that is allocable to a fractional share of Chesapeake common stock for which cash is received;
- The holding period for shares of Chesapeake common stock received in exchange for shares of Florida Public Utilities common stock in the merger will include the holding period for the shares of Florida Public Utilities common stock surrendered in the merger; and
- In the case of a holder of Florida Public Utilities common stock who acquired different blocks of Florida Public Utilities common stock at different times or at different prices, the holder may allocate pro rata the Chesapeake common stock received in the merger to each block of Florida Public Utilities common stock, and the basis and holding period of each block of Chesapeake common stock received in the merger will be determined on a block-for-block basis depending on the basis and holding period of the blocks of Florida Public Utilities common stock exchanged for such block of Chesapeake common stock.

United States Federal Income Tax Consequences to Chesapeake Shareholders. There will be no gain or loss recognized for U.S. federal income tax purposes by a holder of Chesapeake common stock as a result of the merger.

Backup Withholding. Non-corporate holders of Florida Public Utilities common stock may be subject to information reporting and backup withholding (currently at a rate of 28%) on any cash payments received. A non-corporate holder of Florida Public Utilities common stock generally will not be subject to backup withholding, however, if he or she:

- furnishes a correct taxpayer identification number, certifies that he or she is not subject to backup withholding on the substitute Form W-9 or successor form included in the election form/letter of transmittal he or she will receive and otherwise complies with all the applicable requirements of the backup withholding rules; or
- provides proof that he or she is otherwise exempt from backup withholding.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against the U.S. federal income tax liability of a non-corporate holder of Florida Public Utilities common

stock, provided the required information is timely furnished to the Internal Revenue Service by a non-corporate holder of Florida Public Utilities common stock.

Information Reporting. Treasury regulations promulgated under the Code require each shareholder of 5% or more (of the total outstanding Florida Public Utilities common stock) held immediately prior to the merger to attach to the holder's U.S. federal income tax return a statement setting forth the names and employer identification numbers of the parties to the merger, the date of the merger and the fair market value and basis, determined immediately prior to the merger, of the stock held by such holder. Upon request, Chesapeake will provide such a holder of record with the appropriate names and employer identification numbers and the date of the merger.

This discussion is intended to provide only a general summary of the anticipated material U.S. federal income tax consequences of the merger, and is not a complete analysis or description of all potential U.S. federal income tax consequences of the merger. This discussion does not address tax consequences that may vary with, or are contingent on, individual circumstances. In addition, it does not address any tax consequences arising under the laws of any state, local or foreign jurisdiction, or under any U.S. federal laws other than those pertaining to income tax. **Accordingly, Chesapeake and Florida Public Utilities strongly urge each holder of Chesapeake common stock and Florida Public Utilities common stock to consult his or her tax advisor to determine the particular U.S. federal, state or local or foreign income or other tax consequences of the merger to that shareholder.**

Accounting Treatment

The merger will be accounted for using the acquisition method of accounting under accounting principles generally accepted in the United States of America with Chesapeake treated as the acquirer. Under the acquisition method of accounting, the assets acquired and liabilities assumed will be recorded, as of completion of the merger, at their respective fair values and added to those of Chesapeake. The reported financial condition and results of operations of Chesapeake issued after completion of the merger will reflect Florida Public Utilities' balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of Florida Public Utilities. Following the completion of the merger, the earnings of the combined company will reflect acquisition accounting adjustments, including increased depreciation and amortization expense for acquired tangible and intangible assets.

Regulatory Matters Relating to the Merger

To complete the merger, Chesapeake and Florida Public Utilities were required to obtain approvals or consents from, or make filings with, certain U.S. federal antitrust and state public utility regulatory authorities. The material federal and state approvals, consents and filings are described below. Chesapeake and Florida Public Utilities are not currently aware of any other material governmental consents, approvals or filings that are required prior to the parties' consummation of the merger other than those described below. If additional approvals, consents and filings are required to complete the merger, Chesapeake and Florida Public Utilities contemplate that such consents, approvals and filings will be sought or made.

Hart-Scott-Rodino Act. The merger is subject to the requirements of the HSR Act, and the rules and regulations promulgated thereunder, which provide that certain acquisition transactions may not be consummated until required information has been furnished to the Antitrust Division of the Department of Justice and the Federal Trade Commission, referred to as the FTC, and until certain waiting periods have been terminated or have expired. Chesapeake and Florida Public Utilities provided the required information on May 4, 2009. On June 4, 2009, the waiting period expired. The expiration of the HSR Act waiting period does not preclude the Antitrust Division or the FTC from challenging the merger on antitrust grounds and seeking to preliminarily or permanently enjoin the proposed merger. Neither Chesapeake nor Florida Public Utilities believes that the merger will violate federal antitrust laws, but there can be no guarantee that the Antitrust Division or the FTC will not subsequently challenge the merger on antitrust grounds and seek to preliminarily or permanently enjoin the proposed merger.

State Regulatory Approvals. Chesapeake is currently subject to regulation by the Public Service Commissions of Delaware, Maryland and Florida. Florida Public Utilities is currently subject to regulation by the Public Service Commission of Florida. The following is a brief description of state regulatory jurisdiction over the merger and required approvals:

- Chesapeake is subject to regulation by the Delaware Public Service Commission, or the DPSC. Under Delaware law, the approval of the DPSC is required for the issuance of any stock by Chesapeake. Accordingly, Delaware law provides for DPSC jurisdiction to review and approve the issuance of Chesapeake common stock in the merger. On June 16, 2009, the DPSC approved the issuance of Chesapeake common stock in the merger. No additional approvals of the DPSC are necessary to complete the merger.

- Chesapeake is subject to regulation by the Maryland Public Service Commission, or the MPSC. Maryland law requires Chesapeake to submit a notice filing to the MPSC prior to the issuance of Chesapeake common stock. In addition, Maryland law provides for MPSC jurisdiction to approve the direct or indirect acquisition by any person of the power to exercise any substantial influence over the policies or actions of a public utility if the person becomes an affiliate of the utility as a result of the transaction. The statutory standard employed by the MPSC in reviewing any such transactions is whether the transaction is in the public interest, convenience and necessity. On May 19, 2009, Chesapeake submitted to the MPSC its notification of intention to issue stock as consideration in the merger. In its notification, Chesapeake exerted that this transaction meets certain exceptions under the applicable Maryland regulations and, therefore, the stock issuance is exempt from the approval requirement stipulated in the regulations. On July 15, 2009, at its meeting and in response to the required notification previously submitted by Chesapeake, the MPSC acknowledged that, as a result of the transaction meeting certain exceptions to the approval requirement under Maryland regulations, no approval is required for the issuance of Chesapeake common stock in the merger. No further action is required.

- Chesapeake is subject to regulation by the Florida Public Service Commission, or the FPSC. Florida law provides for FPSC jurisdiction to review and approve the issuance of Chesapeake common stock for purposes of acquisitions. On November 19, 2008, the FPSC approved the issuance of a sufficient number of shares of Chesapeake common stock to complete the merger. No further approvals of the FPSC are required to be obtained by Chesapeake to complete the merger.

- Florida Public Utilities is subject to regulation by the FPSC. Under applicable Florida law, Florida Public Utilities is not required to obtain the approval of the FPSC to complete the merger.

Redemption of Florida Public Utilities Preferred Stock

On September 15, 2009, Florida Public Utilities, pursuant to its covenant under the merger agreement, will redeem all outstanding shares of its preferred stock at a redemption price equal to $106 per preferred share, together with all dividends accrued and unpaid to such date.

Dissenters' or Appraisal Rights

Dissenters' or appraisal rights are statutory rights that, if applicable under law, enable shareholders to dissent from an extraordinary transaction, such as a merger, and to demand that the corporation pay the fair value for their shares as determined by a court in a judicial proceeding instead of receiving the consideration offered to shareholders in connection with the extraordinary transaction. Dissenters' or appraisal rights are not available in all circumstances, and exceptions to such rights are provided, in the case of Chesapeake, under the DGCL and, in the case of Florida Public Utilities, under the FBCA.

Chesapeake shareholders are not entitled to dissenters' or appraisal rights in connection with the merger because on the Chesapeake record date Chesapeake common stock will be designated and quoted for trading on the New York Stock Exchange, which satisfies one of the exceptions to dissenters' or appraisal rights under the DGCL.

Similarly, Florida Public Utilities common shareholders are not entitled to dissenters' or appraisal rights in connection with the merger because on the Florida Public Utilities record date Florida Public Utilities common stock will be designated and quoted for trading on the NYSE Amex and will be converted into the right to receive Chesapeake common stock, which at the effective time of the merger will be listed on the New York Stock Exchange, which satisfies one of the exceptions to dissenters' or appraisal rights under the FBCA.

Resale of Chesapeake Common Stock

Chesapeake common stock issued in the merger will not be subject to any restrictions on transfer arising under the Securities Act of 1933, as amended (referred to as the Securities Act), except for shares issued to any shareholder who may be deemed an "affiliate" of Chesapeake under the Securities Act.

Shareholder Litigation Related to the Merger

On May 8, 2009, a putative class action lawsuit purportedly on behalf of the shareholders of Florida Public Utilities was filed in Palm Beach County, Florida against Florida Public Utilities, each of its directors and Chesapeake. The complaint alleges, among other things, that approval of the proposed merger by the directors of Florida Public Utilities constituted a breach of their fiduciary duties. The suit seeks to enjoin completion of the merger. While Florida Public Utilities, its directors and Chesapeake believe that the allegations in the lawsuit are without merit and intend to defend vigorously against these allegations, no assurances can be given as to the outcome of this lawsuit, including the costs associated with defending this lawsuit or any other liabilities or costs the parties may incur in connection with the litigation or settlement of this lawsuit. Furthermore, one of the conditions to closing the merger is that there are no injunctions issued by any court preventing the completion of the transaction. No assurance can be given that this lawsuit will not result in such an injunction being issued which could prevent or delay the closing of the transactions contemplated by the merger agreement.

INFORMATION ABOUT THE COMPANIES

Chesapeake

Chesapeake can trace its roots to 1859, when a predecessor company was founded in Dover, Delaware. Chesapeake officially became incorporated as Chesapeake Utilities Corporation in 1947. Today, Chesapeake is a diversified utility company engaged in four primary business segments: natural gas distribution, transmission and marketing; propane distribution and wholesale marketing; advanced information services; and other related businesses. Chesapeake is a publicly traded company and is listed on the New York Stock Exchange, trading under the symbol "CPK".

In total, Chesapeake currently serves approximately 100,000 distribution customers with either natural gas or propane in Delaware, Maryland, Florida, Virginia and Pennsylvania. Chesapeake employs approximately 448 people and generated $291.4 million in revenues for 2008. Over the last five years, Chesapeake has more than doubled its market capitalization to over $200 million at the end of 2008.

Chesapeake's core business is natural gas distribution and transmission. The Delaware and Maryland natural gas distribution operation is known as Chesapeake Utilities and serves approximately 50,700 residential, commercial and industrial customers. The Florida natural gas distribution operation is known as Central Florida Gas. Central Florida Gas, which is headquartered in Winter Haven, Florida, serves approximately 14,500 residential, commercial and industrial customers in 14 Florida counties.

In total, Chesapeake's natural gas distribution operations serve approximately 65,000 residential, commercial and industrial customers in Delaware, Maryland and Florida. Eastern Shore Natural Gas Company, Chesapeake's natural gas transmission subsidiary, transports and delivers natural gas through 379 miles of transmission pipeline to industrial customers and natural gas distribution companies including Chesapeake's Delaware and Maryland divisions, and owns and operates the only transmission pipeline south of the Chesapeake and Delaware Canal on the Delmarva Peninsula.

Chesapeake's propane distribution and wholesale marketing segment is a major part of its unregulated business portfolio. Sharp Energy, Inc., Chesapeake's propane distribution subsidiary, distributes propane to approximately 35,000 residential, commercial and industrial customers in Delaware, Maryland, Virginia, Pennsylvania and Florida. Xeron, Inc. is Chesapeake's propane wholesale marketing subsidiary based in Houston, Texas.

Chesapeake's other subsidiaries include Peninsula Energy Services Company, Inc. (PESCO), a natural gas marketing company; Peninsula Pipeline Company, Inc., a natural gas intrastate pipeline company in Florida; and BravePoint®, Inc., an advanced information services subsidiary based in Norcross, Georgia.

Additional information about Chesapeake and its subsidiaries is included in documents incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" on page 127.

Florida Public Utilities

Founded in 1924, Florida Public Utilities distributes natural gas, propane and electricity to residential, commercial and industrial customers in Florida. Florida Public Utilities is organized into two regulated business segments — natural gas and electric; and one non-regulated business segment — propane gas.

In total, Florida Public Utilities serves approximately 95,700 customers in 19 counties throughout Florida. Florida Public Utilities employs approximately 348 people and generated revenues of $168.5 million for 2008. Florida Public Utilities is a publicly traded company on the NYSE Amex, trading under the ticker symbol "FPU".

Florida Public Utilities' regulated segments sell natural gas and electricity to approximately 83,000 customers, and its unregulated segment sells propane gas through a wholly owned subsidiary, Flo-Gas Corporation, to approximately 12,500 customers throughout northeast, central and southern Florida. Florida Public Utilities also sells merchandise and other service-related products as a complement to its natural gas and propane operations.

Additional information about Florida Public Utilities and its subsidiary is included in documents incorporated by reference in this joint proxy statement/prospectus. See "Where You Can Find More Information" on page 127.

THE MERGER AGREEMENT

The following is a summary of the material terms of the merger agreement. This summary does not purport to describe all the terms of the merger agreement and is qualified by reference to the complete merger agreement which is attached as Annex A to this joint proxy statement/prospectus and incorporated by reference. All shareholders of Chesapeake and Florida Public Utilities are urged to read the merger agreement carefully and in its entirety.

The summary of the terms of the merger agreement is intended to provide information about the terms of the merger. The terms and information in the merger agreement should not be relied on as disclosures about Chesapeake or Florida Public Utilities without consideration of the entirety of public disclosure by Chesapeake and Florida Public Utilities as set forth in all of their respective public reports with the SEC. The terms of the merger agreement (such as the representations and warranties) govern the contractual rights and relationships, and allocate risks, between the parties in relation to the merger. In particular, the representations and warranties made by the parties to each other in the merger agreement have been negotiated between the parties with the principal purpose of setting forth their respective rights with respect to their obligation to close the merger should events or circumstances change or be different from those stated in the representations and warranties. Matters may change from the state of affairs contemplated by the representations and warranties. Chesapeake and Florida Public Utilities will provide additional disclosure in their public reports to the extent that they are aware of the existence of any material facts that are required to be disclosed under federal securities law and that might otherwise contradict the terms and information contained in the merger agreement and will update such disclosure as required by federal securities laws.

General

Under the merger agreement, a wholly owned subsidiary of Chesapeake will merge with and into Florida Public Utilities, with Florida Public Utilities continuing as the surviving corporation. As a result of the merger, Florida Public Utilities will become a wholly owned subsidiary of Chesapeake.

Closing Matters

Closing. Unless the parties agree otherwise, the closing of the merger will take place on the first business day after all closing conditions have been satisfied or waived, unless the merger agreement has been terminated or another time or date is agreed to in writing by the parties. See "— Conditions" below for a more complete description of the conditions that must be satisfied or waived prior to closing.

Effective Time. As soon as practicable after the satisfaction or waiver of the conditions to the merger, Chesapeake and Florida Public Utilities will file articles of merger with the Florida Department of State in accordance with the relevant provisions of the FBCA. The merger will become effective when the articles of merger are filed or at such later time as Chesapeake and Florida Public Utilities agree and specify in the articles of merger.

Consideration to Be Received in the Merger

The merger agreement provides that, at the effective time of the merger, each share of Florida Public Utilities common stock issued and outstanding immediately prior to the effective time of the merger, but excluding shares of Florida Public Utilities common stock owned by Chesapeake, CPK Pelican, Inc. or Florida Public Utilities (other than those shares held by Florida Public Utilities in a fiduciary or representative capacity), will be converted into 0.405 of a share of Chesapeake common stock.

Conversion of Shares; Exchange of Certificates

The conversion of Florida Public Utilities common stock into the right to receive merger consideration will occur automatically at the effective time of the merger. As soon as reasonably practicable after completion of the merger, the exchange agent will exchange certificates evidencing shares of Florida Public Utilities

common stock for the merger consideration to be received pursuant to the terms of the merger agreement. Computershare Trust Company, N.A. will be the exchange agent.

Letter of Transmittal. As soon as reasonably practicable after the completion of the merger, the exchange agent will mail a letter of transmittal to each record holder of Florida Public Utilities common stock at the effective time of the merger. This mailing will contain instructions on how to surrender Florida Public Utilities common stock in exchange for direct registration shares of book-entry ownership of Chesapeake common stock (unless a physical certificate is requested by such holder) and a check in the amount of cash to be paid instead of fractional shares. When you deliver your Florida Public Utilities stock certificates or direct registration statement indicating book-entry ownership to the exchange agent along with a properly executed letter of transmittal and any other required documents, your Florida Public Utilities stock will be cancelled and you will receive a direct registration statement indicating book-entry ownership of Chesapeake common stock representing the number of full shares of Chesapeake common stock to which you are entitled under the merger agreement. You also will receive a cash payment for any fractional shares of Chesapeake common stock that would have been otherwise issuable to you as a result of the merger.

Holders of Florida Public Utilities common stock should not submit their Florida Public Utilities stock certificates or direct registration statements for exchange until they receive the transmittal instructions and a letter of transmittal form from the exchange agent. Chesapeake shareholders do not need to exchange their stock certificates.

If a certificate for Florida Public Utilities common stock has been lost, stolen or destroyed, the exchange agent will issue the consideration properly payable under the merger agreement upon receipt of appropriate evidence as to that loss, theft or destruction and may require the posting of a bond indemnifying Chesapeake and the exchange agent for any claim that may be made against Chesapeake as a result of the lost, stolen or destroyed certificates. After completion of the merger, there will be no further transfers on the stock transfer books of Florida Public Utilities, except as required to settle trades executed prior to the completion of the merger.

Withholding. The exchange agent will be entitled to deduct and withhold from the cash in lieu of fractional shares payable to any Florida Public Utilities shareholder the amounts the exchange agent is required to deduct and withhold under any applicable federal, state, local or foreign tax law. If the exchange agent withholds any amounts, these amounts will be treated for all purposes of the merger as having been paid to the shareholders from whom they were withheld.

Dividends. Until Florida Public Utilities common stock certificates are surrendered for exchange, any dividends having a record date after the effective time of the merger with respect to the whole shares of Chesapeake common stock into which shares of Florida Public Utilities common stock may have been converted will accrue but will not be paid. Chesapeake will pay to former Florida Public Utilities shareholders any unpaid dividends, without interest, only after they have duly surrendered their Florida Public Utilities stock certificates. For example, if the merger is completed before a January record date for a dividend declared on Chesapeake common stock, Florida Public Utilities' shareholders would be entitled to receive this dividend on shares of Chesapeake common stock they receive in respect of their shares of Florida Public Utilities common stock and hold on the dividend record date, but would only receive this amount after they have surrendered their Florida Public Utilities stock certificates in accordance with the exchange instructions they will receive.

Fractional Shares

No fractional shares of Chesapeake common stock will be issued in the merger. Instead, the exchange agent will pay each of those Florida Public Utilities shareholders who would have otherwise been entitled to a fractional share of Chesapeake common stock an amount in cash determined by multiplying the fractional share interest by the average of the closing sale prices of Chesapeake common stock on the New York Stock Exchange for the 15 trading days ending on the third trading day immediately preceding the date on which the merger is completed.

Listing of Chesapeake Common Stock

Chesapeake has agreed to use its reasonable best efforts to cause the shares of Chesapeake common stock to be issued in the merger to be approved for listing on the New York Stock Exchange (in the form of an official notice of issuance) prior to the effective time of the merger. Chesapeake's symbol "CPK" will be used for such shares, assuming the listing application is approved. Approval for listing on the New York Stock Exchange of the shares of Chesapeake common stock issuable to the Florida Public Utilities shareholders in the merger (in the form of an official notice of issuance) is a condition to the obligations of Chesapeake and Florida Public Utilities to complete the merger. Chesapeake has filed a listing application with the New York Stock Exchange to list the Chesapeake common shares to be issued in the merger.

Covenants

Chesapeake and Florida Public Utilities have each undertaken certain covenants in the merger agreement concerning the conduct of their respective businesses between the date the merger agreement was signed and the completion of the merger, and Chesapeake has undertaken certain covenants in the merger agreement that require it to perform certain obligations after completion of the merger. The following summarizes the more significant of these covenants:

No Solicitation. Florida Public Utilities has agreed that Florida Public Utilities will not, nor will it authorize or cause its subsidiary or any of the respective directors, officers or employees of Florida Public Utilities or its subsidiary to, directly or indirectly:

- solicit or initiate (including by way of furnishing information) any inquiry or the making of any proposal or offer that constitutes, or that could reasonably be expected to lead to, a third-party "takeover proposal" as described below;
- enter into, continue or otherwise participate or engage in any discussions or negotiations regarding a "takeover proposal;"
- furnish to any person any confidential information or data in connection with a "takeover proposal;" or
- accept a "takeover proposal" (subject to Florida Public Utilities' right to terminate the merger agreement under certain circumstances described below in "— Termination of Merger Agreement" if Florida Public Utilities receives a "superior proposal" of the type described below).

However, Florida Public Utilities is permitted to take and disclose to its shareholders its position with respect to any "takeover proposal" as may be required under the federal securities laws.

In addition, Florida Public Utilities is permitted to engage in discussions and negotiations with, and provide information to, any person in response to an unsolicited "takeover proposal," if:

- its meeting of shareholders to vote on the approval of the merger agreement and the merger has not occurred;
- its board of directors determines in good faith (1) after consultation with its independent financial advisor and outside legal counsel, that the "takeover proposal" is a "superior proposal" as described below or there is reasonable likelihood that the "takeover proposal" could result in a "superior proposal" and (2) after consultation with its outside legal counsel, that failure to take such action would be reasonably likely to be inconsistent with its fiduciary duties;
- prior to providing any information or data to any person in connection with a "takeover proposal", the proposing party first signs a confidentiality agreement customary for such transactions; and
- prior to providing any information or data to any person or entering into discussions or negotiations with any person, Florida Public Utilities notifies Chesapeake promptly of such inquiries, proposals or offers received by, or any such discussions or negotiations sought to be initiated or continued with, any of the respective directors, officers, employees, agents or representatives of Florida Public Utilities or its subsidiary indicating, in connection with such notice, the material terms and conditions of any inquiries, proposals or offers, provided that such notice shall not be required to contain any information the provision of which the Florida Public Utilities' board of directors determines in good faith, after

consultation with its outside legal counsel, would be reasonably likely to be inconsistent with its fiduciary duties.

A *"takeover proposal"* is any inquiry, proposal or offer relating to, or that could reasonably be expected to lead to, directly or indirectly:

- any acquisition or purchase, whether by purchase, exchange, merger, consolidation, business combination or similar transaction, in one transaction or a series of transactions, of assets or businesses that constitute 15% or more of the revenues, net income or the assets of Florida Public Utilities and its subsidiary, or 15% or more of any class of equity securities of Florida Public Utilities or its subsidiary;
- any tender offer or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of Florida Public Utilities or its subsidiary; or
- any merger, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, binding share exchange or similar transaction involving Florida Public Utilities or its subsidiary pursuant to which any person or the stockholders of any person would own 15% or more of any class of equity securities of Florida Public Utilities or its subsidiary or of any resulting parent company of Florida Public Utilities.

A *"superior proposal"* is an unsolicited bona fide written offer which:

- is made by a third party in respect of a transaction or series of related transactions that if consummated would result in such third party acquiring, directly or indirectly, more than 50% of the voting power of Florida Public Utilities' common stock or more than 50% of the assets of Florida Public Utilities and its subsidiary; and
- Florida Public Utilities' board of directors determines in its good faith judgment, after consulting with a financial advisor of nationally recognized reputation, is (1) more favorable from a financial point of view to its shareholders than the merger with Chesapeake, taking into account the person making the offer, the terms and conditions of such offer and the merger agreement with Chesapeake (including any changes to the financial terms of the merger agreement proposed by Chesapeake in response to such offer or otherwise), as well as any other factors deemed relevant by Florida Public Utilities' board of directors; and (2) reasonably capable of being financed and completed, taking into account all financial, legal, regulatory, timing and other aspects of such proposal deemed relevant by Florida Public Utilities' board of directors.

Board of Directors' Covenant to Recommend Approval of the Merger. Florida Public Utilities has agreed that its board of directors will recommend approval of the merger agreement and the merger to the Florida Public Utilities shareholders. Similarly, Chesapeake has agreed that its board of directors will recommend adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock in the merger to its shareholders.

Neither Florida Public Utilities' board of directors nor any committee thereof is permitted to make an "adverse recommendation change" as described below or approve or recommend, or publicly propose to approve or recommend, or, except in conjunction with exercising its right to terminate the merger agreement with Chesapeake under certain circumstances described in "— Termination of Merger Agreement" if Florida Public Utilities receives a "superior proposal" of the type described above, allow Florida Public Utilities or its subsidiary to execute or enter into any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, purchase agreement, option agreement, joint venture agreement, partnership agreement or other similar agreement constituting or related to any "takeover proposal" of the type described above, except that, at any time prior to obtaining the Florida Public Utilities shareholders' approval of the merger agreement with Chesapeake and the merger with Chesapeake, Florida Public Utilities' board of directors may make an "adverse recommendation change" of the type described below if it determines in good faith, after consulting with outside counsel, that the failure to do so would be reasonably likely to be inconsistent with its fiduciary duties to the Florida Public Utilities shareholders; provided, however, that no such "adverse recommendation change" is permitted to be made until after the third business day following

Chesapeake's receipt of written notice from Florida Public Utilities advising Chesapeake that Florida Public Utilities' board of directors intends to make an "adverse recommendation change" and specifying the terms and conditions of the "superior proposal" of the type described above, if any, that is related to such "adverse recommendation change."

In determining whether to make an "adverse recommendation change," Florida Public Utilities' board of directors is required to take into account any changes to the financial terms of the merger agreement with Chesapeake proposed by Chesapeake in response to Florida Public Utilities' notice of the "adverse recommendation change" or otherwise.

Even if Florida Public Utilities' board of directors makes an "adverse recommendation change," Florida Public Utilities is still required to submit the merger with Chesapeake and related proposals at the special meeting of its shareholders for consideration, unless the merger agreement is otherwise terminated. See "— Termination of Merger Agreement" on page 84 for a discussion of Florida Public Utilities' ability to terminate the merger agreement.

An *"adverse recommendation change"* is any:

- withdrawal, qualification or modification in any manner adverse to Chesapeake of, or public proposal to withdraw, qualify or modify in any manner adverse to Chesapeake, the approval, recommendation or declaration of advisability by Florida Public Utilities' board of directors or any committee thereof of the merger agreement with Chesapeake or the other transactions contemplated thereby; or

- recommendation, adoption or approval, or public proposal to recommend, adopt or approve, any "takeover proposal" of the type described above.

Operations of Chesapeake and Florida Public Utilities Pending Closing. Chesapeake and Florida Public Utilities have each undertaken a separate covenant that places restrictions on their and their respective subsidiaries' operations until either the effective time of the merger or the termination of the merger agreement. In general, the companies and their respective subsidiaries are each required to conduct their respective businesses in the ordinary course consistent with past practices in all material respects and to use commercially reasonable efforts to preserve intact their present businesses and relationships with third parties. Each company has agreed to restrictions that, except as required by law, prohibit them and their respective subsidiaries from:

- declaring or paying dividends in amounts inconsistent with past practice;

- making changes in their respective share capital, including among other things, stock splits, combinations or reclassifications, except for any such transaction by a wholly owned subsidiary of Florida Public Utilities that remains a wholly owned subsidiary after the completion of the transaction;

- amending their respective governing documents, other than, in the case of Chesapeake, amendments related to the composition or structure of its board of directors or committees thereof or other governance-related matters;

- making acquisitions of other entities, other than acquisitions by Chesapeake the consideration for which does not exceed $15 million individually or in the aggregate;

- disposing of any material assets, other than (1) sales of surplus or obsolete equipment, (2) sales in the ordinary course or sales pursuant to contractual rights existing as of April 17, 2009 that were entered into in the ordinary course of business, (3) sales, leases or other transfers between Chesapeake or Florida Public Utilities and their respective wholly owned subsidiaries or between those subsidiaries, (4) sales, dispositions or divestitures as may be required by applicable laws to obtain any consent, approval, permit or authorization or to remove any impediments to the merger relating to antitrust laws or to avoid the entry of, or to effect the dissolution of, any judgment, decree, injunction, ruling, order, writ, fine, award, decision, subpoena or determination of any court or other governmental entity in any suit or proceeding relating to antitrust laws, or (5) arm's-length sales or other transfers not described

above for aggregate consideration not exceeding $100,000, in the case of Florida Public Utilities, or $10 million, in the case of Chesapeake;

- making loans, advances, capital contributions or investments in any other entity pursuant to a legal obligation not existing on April 17, 2009, other than in the ordinary course and consistent with past practice, and other than loans, advances, capital contributions or investments by Chesapeake or Florida Public Utilities to their respective subsidiaries or vice versa;
- creating, incurring, assuming or suffering to exist any indebtedness, issuance of debt securities, guarantee, loan or advance not existing as of April 17, 2009, other than draws by Florida Public Utilities upon its existing line of credit in the ordinary course consistent with past practices, refinancing indebtedness of Chesapeake and its subsidiaries existing as of April 17, 2009 in an amount not exceeding the principal amount thereof as of April 17, 2009 and incurrence by Chesapeake and its subsidiaries of additional indebtedness, or increasing their indebtedness existing as of April 17, 2009, in an aggregate amount not exceeding $40 million;
- changing their respective accounting methods, other than to comply with changes in accounting principles or as permitted by accounting principles and which change would not reasonably be likely to have a material adverse effect; or
- settling or compromising, or entering into any consent decree, injunction or similar restraint or form of equitable relief in settlement of, any material action, suit, claim, audit, hearing, investigation, litigation or proceeding which would be reasonably likely to have a material adverse effect that was not pending as of April 17, 2009 and is not related to any action, suit, claim, audit, hearing, investigation, litigation or proceeding so pending, except with the prior consent of Chesapeake or Florida Public Utilities, as applicable.

In addition, Florida Public Utilities has agreed to additional restrictions that, except as required by law, prohibit it and its subsidiary from:

- incurring or committing to any capital expenditures or any obligations or liabilities in connection therewith in fiscal year 2009 other than capital expenditures and obligations or liabilities incurred or committed to in an amount not greater, in the aggregate, than 105% of the amount of Florida Public Utilities' total budget for such expenditures and obligations or liabilities for its fiscal year 2009 as approved by its board of directors;
- repurchasing, redeeming or otherwise acquiring any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock, except for the redemption of its preferred stock described below in "Redemption of Florida Public Utilities Preferred Stock;"
- issuing, delivering, selling or granting any shares of its capital stock, or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares, other than pursuant to, and consistent with past practice under, any contract or other legal obligation existing as of April 17, 2009 (subject to Florida Public Utilities' obligation with respect to its employee stock purchase plan described below in "Employee Matters");
- increasing the compensation, bonuses or benefits of, or entering into any new (or amending any existing) agreements with, any former, present or future officer, director or employee, other than normal compensation increases to persons who are not non-employee directors in the ordinary course consistent with past practices and amending the pension plan as described below in "Employee Matters";
- increasing employee benefits, adopting any additional employee benefit plan or contributing (other than regularly scheduled contributions) to any employee benefit plan, other than in the ordinary course consistent with past practice or as required by an agreement or employee benefit plan existing as of April 17, 2009;
- changing its fiscal year, making or changing any material tax election, settling or compromising any material tax liability or material claim for refund, consenting to any extension or waiver of the

limitation period applicable to any material tax, or changing in any material respect any of its methods of reporting any item for tax purposes;

- except in the ordinary course, entering into any agreement containing restrictions that would limit or restrict Florida Public Utilities or its subsidiary, or after the effective time, Chesapeake or its subsidiaries, from engaging or competing in any line of business or engaging in any business or competing in any geographic area;
- settling or compromising, or entering into any consent decree, injunction or similar restraint or form of equitable relief in settlement of, any material action, suit, claim, audit, hearing, investigation, litigation or proceeding related to Florida Public Utilities' West Palm Beach site that was pending as of April 17, 2009, except with the prior consent of Chesapeake;
- settling or compromising, or entering into any consent decree, injunction or similar restraint or form of equitable relief in settlement of, any other material action, suit, claim, audit, hearing, investigation, litigation or proceeding pending as of April 17, 2009 without first consulting with and considering the good faith view of Chesapeake;
- purchasing or acquiring any shares of capital stock of Florida Public Utilities or Chesapeake; or
- entering into any new, or amending any existing, collective bargaining agreement with a labor union or labor organization without first consulting with Chesapeake.

HSR Matters; Reasonable Best Efforts Covenants. Each of Chesapeake and Florida Public Utilities has agreed to make its required filings and submissions under, and "substantially comply" and certify substantial compliance with any "second request" issued pursuant to, the HSR Act, with respect to the transactions contemplated by the merger agreement.

Each of Chesapeake and Florida Public Utilities has also agreed to use its reasonable best efforts to:

- prepare and file all necessary documentation to effect all necessary applications, notices, petitions, filings, tax ruling requests and other documents as may be necessary or advisable in connection with the transactions contemplated by the merger agreement;
- obtain any consent, waiver, license, registration, acquiescence, permit, tax ruling, authorization, order or approval of, or any exemption or nonopposition by, any third party and/or any governmental entity as may be necessary or advisable in connection with the transactions contemplated by the merger agreement;
- resolve, so as to permit consummation of the transactions contemplated by the merger agreement, any objections asserted with respect to any such transactions under any applicable law or any action, suit, claim, audit, hearing, investigation, litigation or proceeding instituted by any governmental entity or private party challenging any such transactions as violative of any applicable law;
- avoid the entry of, or to have vacated, terminated or modified, any judgment, decree, injunction, ruling, order, writ, fine, award, decision, subpoena or determination of any court or other governmental entity that would restrain, prevent or delay completion of the merger;
- cause the expiration or termination of the applicable waiting period under the HSR Act;
- cause the merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code and obtain the tax opinion described below in "— Conditions".

Notwithstanding the covenants of the parties in the merger agreement (including those described above with respect to the HSR), neither party is required to dispose of any of its assets or to limit its freedom of action with respect to any of its businesses, or to consent to any disposition of its assets or limits on its freedom of action with respect to any of its businesses, to obtain any consents, approvals, permits or authorizations or to remove any impediments to the merger relating to antitrust laws or to avoid the entry of, or to effect the dissolution of, any judgment, decree, injunction, ruling, order, writ, fine, award, decision, subpoena or determination of any court or other governmental entity in any suit or proceeding relating to the

HSR Act or other antitrust laws, other than such dispositions, limitations or consents, commitments or agreements that in each such case may be conditioned upon the consummation of the merger and the transactions contemplated by the merger agreement and that in each such case, individually or in the aggregate, do not have and are not reasonably likely to have a material adverse effect on Chesapeake or Florida Public Utilities after the merger.

Expenses. The companies have each agreed to pay their own costs and expenses incurred in connection with the merger and the merger agreement, except that (1) Chesapeake and Florida Public Utilities will share equally the filing fees required under or in connection with the HSR Act and the printing and mailing costs incurred in connection with the mailing of this joint proxy statement/prospectus and (2) if the merger is completed, the surviving corporation of the merger shall pay, or cause to be paid, any and all property or transfer taxes imposed on Florida Public Utilities or its subsidiary in connection with the merger.

Employee Matters. Florida Public Utilities has agreed that, prior to the effective time of the merger:

- its board of directors will adopt a resolution acknowledging that Florida Public Utilities' pension plan has been frozen (effective as of various future dates, not later than December 31, 2011) and finding that the merger does not constitute a "change in control" as defined in the pension plan; and

- it will cause its employee stock purchase plan not to be renewed for the period commencing on July 1, 2009, except to the extent such action is prohibited or limited by applicable law, any contract between Florida Public Utilities and any labor union or collective bargaining unit existing as of April 17, 2009, or any employee benefit plan existing as of April 17, 2009.

Chesapeake has agreed that as of the effective time of the merger:

- all employees of Florida Public Utilities and its subsidiary immediately prior to the effective time of the merger will continue to be employed by Florida Public Utilities (although Chesapeake has no obligation to cause Florida Public Utilities to continue employing such employees for any length of time thereafter except pursuant to any applicable employment agreements);

- Chesapeake will provide credit for service with Florida Public Utilities and its subsidiary for benefit plan eligibility and vesting purposes (but not for purposes of benefit accruals or benefit computations) under Chesapeake's and Florida Public Utilities' employee benefit plans to the extent service with Chesapeake or Florida Public Utilities is recognized under any such plan;

- maintain all of Florida Public Utilities employee benefit plans (in the case of the pension plan, as modified as described above) until the first anniversary of the effective time of the merger for all employees and former employees of Florida Public Utilities at the effective time of the merger; provided, however, that with respect to those employees who are members of a labor union or collective bargaining unit and in connection with entering into, amending or renewing any labor or collective bargaining agreement, Chesapeake has reserved the right to modify or terminate any Florida Public Utilities employee benefit plan prior to such one-year anniversary; and

- waive all restrictions and limitations for any medical condition existing as of the effective time of the merger of any employee or former employee of Florida Public Utilities and their eligible dependents for the purpose of any medical and dental plans covering any such employee, provided such persons had the requisite "creditable" service prior to the effective time of the merger and only to the extent that such condition would be covered by the relevant Florida Public Utilities employee benefit plan if it were not a pre-existing condition and only to the extent of comparable coverage in effect immediately prior to the effective time of the merger.

Boards of Directors Matters. Florida Public Utilities has agreed to cause to be delivered to Chesapeake resignations, effective as of the effective time of the merger, of all members of the respective boards of directors of Florida Public Utilities and its subsidiary.

Chesapeake has agreed to take all corporate action necessary to cause the election or appointment to its board of directors, effective upon or immediately after the effective time of the merger, of two members of Florida Public Utilities' board of directors designated by Chesapeake.

Redemption of Florida Public Utilities Preferred Stock. Florida Public Utilities has agreed to redeem, prior to the effective time of the merger, all outstanding shares of its preferred stock at a redemption price equal to the amounts then required to be paid upon redemption of the applicable series of preferred stock pursuant to the terms of such series, together with all dividends accrued and unpaid to the date of such redemption. Pursuant to a notice of redemption mailed to holders of its outstanding shares of preferred stock, on September 15, 2009, Florida Public Utilities will redeem all outstanding shares of its preferred stock at a redemption price equal to $106 per preferred share, together with all dividends accrued and unpaid to such date.

Other Covenants. The merger agreement contains certain other covenants, including reciprocal covenants relating to access to information and employees, a covenant permitting site inspection (including environmental assessments) of Florida Public Utilities by Chesapeake and its consultants, a covenant by Florida Public Utilities to use commercially reasonable efforts to maintain insurance policies or comparable insurance coverage existing as of April 17, 2009, covenants by the companies to cooperate with each other in the preparation of this joint proxy statement/prospectus and other governmental filings, and covenants relating to public announcements, delivery of "comfort" letters from the companies' respective independent registered public accounting firms, Section 16(a) of the Exchange Act matters, certain tax matters, and notification of certain matters.

Representations and Warranties

The merger agreement contains substantially reciprocal representations and warranties made by each company to the other. The representations and warranties relate to:

- corporate existence, qualification to conduct business and corporate standing and power;
- corporate authority to enter into, and carry out the obligations under, the merger agreement and enforceability of the merger agreement;
- capital structure;
- subsidiaries;
- compliance with laws;
- permits;
- absence of a breach or violation of the articles or certificate of incorporation, bylaws, law or material agreements as a result of the merger;
- absence of a change in control triggering event under any material contract, employee benefit plan or permit in connection with the merger;
- filings with the SEC and financial statements;
- filings with the Federal Energy Regulatory Commission and state public utility commissions;
- litigation;
- absence of certain changes or events;
- taxes;
- employee benefit plans;
- employment and labor matters;
- environmental matters;
- intellectual property;

- orders of courts or other governmental entities;
- insurance coverage;
- payment of fees to finders or brokers in connection with the merger agreement;
- opinions of financial advisors;
- board of directors approval;
- ownership of the other company's stock;
- required shareholder vote;
- material contracts;
- takeover statutes and preferred share purchase rights plans;
- properties;
- information supplied for use in this joint proxy statement/prospectus; and
- regulatory proceedings;

The merger agreement also contains certain representations and warranties of Chesapeake with respect to its wholly owned merger subsidiary, including organization, corporate authorization, absence of a breach of the articles of incorporation and the bylaws, and no prior business activities of the merger subsidiary.

Conditions

The companies' respective obligations to complete the merger are subject to the satisfaction or, to the extent legally permissible, the waiver of the following conditions:

- the approval of the merger agreement and the merger by the Florida Public Utilities shareholders, and the adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock by the Chesapeake shareholders;
- the expiration or termination of any applicable waiting periods under the HSR Act;
- the absence of any law issued or judgment, decree, injunction, ruling, order, writ, fine, award, decision, subpoena or determination by a court or other governmental entity making the merger illegal or otherwise prohibiting consummation of the merger;
- the absence of any pending action, suit, claim, audit, hearing, investigation, litigation or proceeding by any governmental entity of competent jurisdiction seeking to make the merger illegal or otherwise prohibiting consummation of the merger;
- the SEC having declared effective the Chesapeake registration statement, of which this joint proxy statement/prospectus forms a part;
- the approval for listing by the New York Stock Exchange of the Chesapeake common stock to be issued in the merger (in the form of an official notice of issuance);
- the approvals of the Florida, Delaware and Maryland Public Service Commissions having been obtained; and
- the receipt of an opinion of Chesapeake's counsel, in form and substance satisfactory to Florida Public Utilities and Chesapeake, to the effect that the merger will constitute a "reorganization" under the Internal Revenue Code and certain tax consequences will result therefrom.

In addition, individually, the companies' respective obligations to effect the merger are subject to the satisfaction or, to the extent legally permissible, the waiver of the following additional conditions:

- the representations and warranties of the other company contained in the merger agreement which are qualified by material adverse effect or materiality, being true and correct in all respects as of the date of the merger agreement and as of the closing date of the merger, except to the extent that such representation or warranty expressly relates to an earlier date, in which case as of such earlier date, and except as such representations and warranties are affected by actions explicitly permitted by the merger agreement;
- the representations and warranties of the other company contained in the merger agreement which are not qualified by material adverse effect or materiality, being true and correct in all respects except where the failure to be true and correct, individually or in the aggregate, has not had and is not reasonably likely to have a material adverse effect on the other company, as of the date of the merger agreement and as of the closing date of the merger, except to the extent that such representation or warranty expressly relates to an earlier date, in which case as of such earlier date;
- each party has performed or complied with in all respects all agreements or covenants required to be performed or complied with by it under the merger agreement which are qualified as to material adverse effect or materiality and each party has performed or complied with in all material respects all other agreements or covenants required to be performed by it under the merger agreement, in each case, at or prior to the closing date of the merger; and
- the other party having not suffered from any change, event, occurrence, state of facts or development that individually or in the aggregate has had or is reasonably likely to have a material adverse effect on such party.

Notwithstanding the condition described above relating to the performance of agreements and covenants, it is also a condition of Chesapeake's obligations to effect the merger that Florida Public Utilities perform in all respects its agreements and covenants relating to its pension plan and employee stock purchase plan, as described above in "— Covenants".

Termination of Merger Agreement

Right to Terminate. The merger agreement may be terminated at any time prior to the effective time of the merger in any of the following ways:

- by mutual written consent.
- by either company:
  - if the merger has not been completed by January 31, 2010 or, if the conditions to closing relating to antitrust or other regulatory approvals of the merger have not been satisfied, but all other conditions to closing are satisfied or are capable of being satisfied, this date is automatically extended to March 31, 2010; except that a party may not terminate the merger agreement if the cause of the merger not being completed is that party's failure to perform or observe in any material respect any of its obligations under the merger agreement;
  - if Chesapeake's shareholders fail to adopt the merger agreement and approve the merger and the issuance of Chesapeake common stock in the merger or Florida Public Utilities' shareholders fail to approve the merger agreement and the merger; or
  - if a governmental entity issues an order or takes any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by the merger agreement and such order or other action has become final and non-appealable, except that a party may not terminate the merger agreement if the cause of the prohibition is a result of that party's failure to fulfill its obligations under the provision of the merger agreement which, among other requirements, requires each party to use its reasonable best efforts to obtain government approvals for the completion of the merger.

- by Chesapeake:
  - provided that Chesapeake is not then in breach of any representation, warranty, covenant or agreement in the merger agreement such that Florida Public Utilities would be entitled to terminate the merger agreement, if Florida Public Utilities breaches any of its representations or warranties or fails to perform any of its covenants or obligations under the merger agreement or any of its representations or warranties becomes untrue, in any case such that such breach:
    - results in the failure of certain closing conditions to the merger being satisfied; and
    - is incapable of being cured or remains uncured after 45 days after the date that notice of such breach is given to Chesapeake by Florida Public Utilities or, in the event such breach is discovered by Chesapeake, within 45 days after the date written notice of such breach is given to Florida Public Utilities by Chesapeake;
  - if Florida Public Utilities' board of directors either changes its recommendation of the merger agreement in a manner adverse to Chesapeake or recommends a "takeover proposal" of the type described above in "— Covenants"; or
  - if Florida Public Utilities suffers a material adverse effect.
- by Florida Public Utilities:
  - provided that Florida Public Utilities is not then in breach of any representation, warranty, covenant or agreement in the merger agreement such that Chesapeake would be entitled to terminate the merger agreement, if Chesapeake breaches any of its representations or warranties or fails to perform any of its covenants or obligations under the merger agreement or any of its representations or warranties becomes untrue, in any case such that such breach:
    - results in the failure of certain closing conditions to the merger being satisfied; and
    - is incapable of being cured or remains uncured after 45 days after the date that notice of such breach is given to Florida Public Utilities by Chesapeake or, in the event such breach is discovered by Florida Public Utilities, within 45 days after the date written notice of such breach is given to Chesapeake by Florida Public Utilities;
  - if Florida Public Utilities' board of directors authorizes Florida Public Utilities to enter into a written agreement concerning a transaction that Florida Public Utilities' board of directors has determined in accordance with the merger agreement is a "superior proposal" (as described above in "— Covenants"), except that Florida Public Utilities cannot terminate the merger agreement for this reason unless (1) Florida Public Utilities provides Chesapeake with notice that it intends to enter into such an agreement and (2) Chesapeake, within three business days of receiving such notice from Florida Public Utilities, does not make an offer that the board of directors of Florida Public Utilities determines in accordance with the merger agreement is at least as favorable to the Florida Public Utilities shareholders as the superior proposal Florida Public Utilities received from the third party; or
  - if Chesapeake suffers a material adverse effect.

Termination Fee Payable by Florida Public Utilities. Florida Public Utilities has agreed to pay Chesapeake a termination fee of $3.4 million on the first business day following the date of termination of the merger agreement if the merger agreement is terminated:

- by Chesapeake because Florida Public Utilities' board of directors either changes its recommendation of the merger agreement in a manner adverse to Chesapeake or recommends a "takeover proposal" of the type described above in "— Covenants" (but only if Chesapeake has not suffered a material adverse effect after the date of merger agreement that is continuing at the time of the adverse recommendation change giving rise to the termination by Chesapeake); or

- by Florida Public Utilities if Florida Public Utilities' board of directors authorizes Florida Public Utilities to enter into a written agreement concerning a transaction that Florida Public Utilities' board of directors has determined in accordance with the merger agreement is a "superior proposal" of the type described above in "— Covenants."

Florida Public Utilities has also agreed that if (1) after April 17, 2009, a "takeover proposal" of the type described above in "— Covenants" is publicly made to Florida Public Utilities or is publicly made directly to the shareholders of Florida Public Utilities generally or any person publicly announces an intention (whether or not conditional) to make such a takeover proposal and (2) the merger agreement is terminated by either Florida Public Utilities or Chesapeake because the merger has not been completed by January 31, 2010 (or March 31, 2010, if the termination date is automatically extended), and within 365 days of such termination Florida Public Utilities enters into any definitive agreement with respect to or completes a takeover proposal, then Florida Public Utilities will pay Chesapeake the termination fee of $3.4 million on the earlier of the date Florida Public Utilities enters into such agreement with respect to such takeover proposal and the date such takeover proposal is completed.

Obligations in the Event of Termination. In the event of termination as provided for above, all obligations of Chesapeake and Florida Public Utilities in the merger agreement will terminate (except with respect to certain designated obligations in the merger agreement) and there will be no liability on behalf of Chesapeake or Florida Public Utilities, except for liabilities arising from a breach by a party of any of its representations, warranties, covenants or agreements in the merger agreement.

Confidentiality and Non-Solicitation Restrictions. The confidentiality agreement between Chesapeake and Florida Public Utilities survives any termination of the merger agreement.

Chesapeake and Florida Public Utilities have also agreed that, for a period of one year following the date of termination of the merger agreement, neither party nor any of their respective subsidiaries will hire or solicit for hire or employment any officer or employee of the other party or any of its subsidiaries or any person who at the time of proposed hire had been an officer or employee of the other party or any of its subsidiaries within the previous six months.

Standstill Obligations. Chesapeake and Florida Public Utilities have agreed that, for a period of one year following the date of termination of the merger agreement, neither party will:

- acquire or agree, offer, seek or propose to acquire, by purchase or otherwise, ownership of any voting securities or rights to acquire any voting securities of the other, or any of the assets or businesses of the other or any subsidiary or division thereof or any bank debt, claims or other obligations of the other or any rights to acquire such ownership;
- seek or propose to influence or control the management or policies of the other or to obtain representation on the other's board of directors, or solicit any proxies of the other's shareholders, or make any public announcement with respect to any of the foregoing;
- make any public announcement with respect to, or submit a proposal for, or offer of any extraordinary transaction involving the other or its securities or assets; or
- enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing, or otherwise form, join or in any way participate in a "group" (as defined in the Exchange Act) in connection with any of the foregoing.

Notwithstanding the restrictions above:

- either party is permitted to commence a non-coercive tender offer for the other's common stock at a price higher than that contemplated by any other then-existing merger agreement to which the other is a party; and
- either party may comment on any merger negotiation process or other matter relating to or involving the merger or takeover of the other party in order to correct material misstatements or omissions made by the other party or its advisors.

Amendments

The merger agreement may be amended by the parties at any time before or after the shareholder meetings, except that any amendment after a shareholders' meeting, which requires approval by shareholders, may not be made without such approval.

CHESAPEAKE AND FLORIDA PUBLIC UTILITIES UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The Unaudited Pro Forma Condensed Combined Statements of Income combine the historical consolidated statements of income of Chesapeake and Florida Public Utilities, giving effect to the merger as if it had occurred on January 1, 2008. The Unaudited Pro Forma Condensed Combined Balance Sheet combines the historical consolidated balance sheets of Chesapeake and Florida Public Utilities, giving effect to the merger as if it had been consummated on June 30, 2009. The historical consolidated financial information has been adjusted in the Unaudited Pro Forma Condensed Combined Financial Statements to give effect to pro forma events that are (1) directly attributable to the merger, (2) factually supportable, and (3) with respect to the statements of income, expected to have a continuing impact on the combined results. You should read this information in conjunction with the:

- accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements;
- separate unaudited historical financial statements of Chesapeake as of and for the three- and six-month periods ended June 30, 2009 and the related notes included in Chesapeake's quarterly report on Form 10-Q for the three and six months ended June 30, 2009, which is incorporated by reference into this joint proxy statement/prospectus;
- separate audited historical financial statements of Chesapeake as of and for the year ended December 31, 2008 and the related notes included in Chesapeake's annual report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference into this joint proxy statement/prospectus;
- separate unaudited historical financial statements of Florida Public Utilities as of and for the three- and six-month periods ended June 30, 2009 and the related notes included in Florida Public Utilities' quarterly report on Form 10-Q for the three and six months ended June 30, 2009, which is incorporated by reference into this joint proxy statement/prospectus; and
- separate audited historical financial statements of Florida Public Utilities as of and for the year ended December 31, 2008 and the related notes included in Florida Public Utilities' annual report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference into this joint proxy statement/prospectus.

The unaudited pro forma condensed combined financial information is provided for informational purposes only. The pro forma information is not necessarily indicative of what the combined company's financial position or results of operations actually would have been had the merger been completed at the dates indicated. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future financial position or operating results of the combined company. There were no material transactions between Chesapeake and Florida Public Utilities during the periods presented in the unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting under existing accounting principles generally accepted in the United States of America, or U.S. GAAP standards, with Chesapeake treated as the acquirer. The acquisition accounting is dependent upon certain valuations and other studies that have yet to commence or progress to a stage where there is sufficient information for a definitive measurement. Accordingly, the pro forma adjustments are preliminary and have been made solely for the purpose of providing unaudited pro forma condensed combined financial information and are subject to revision based on a final determination of fair value upon the closing of the merger. Differences between these preliminary estimates and the final acquisition accounting could have a material impact on the accompanying unaudited condensed combined pro forma financial statements and the

combined company's future results of operations and financial position. Florida Public Utilities' natural gas and electric operations are regulated and accounted for pursuant to SFAS No. 71, *Accounting for the Effect of Certain Types of Regulation*. Under the rate setting and recovery provisions currently in place and expected to continue in place for these regulated operations, revenues are derived from earning a return on, and a recovery of, the original cost of assets and liabilities subject to rate regulation as approved by the regulatory authority. Accordingly, the fair values of the individual assets and liabilities of these regulated operations subject to rate regulation are expected to approximate the carrying value under existing U.S. GAAP standards, or, if adjusted, any fair value adjustments are expected to result in corresponding and offsetting regulatory assets and liabilities pursuant to SFAS No. 71. The unaudited pro forma condensed financial information has been prepared on a basis assuming that the merger will not have any impact on rates currently in place and does not include the effect of any future rate action associated with the merger related costs.

The Unaudited Pro Forma Condensed Combined Statements of Income do not include the impacts of any revenue, cost or other operating synergies that may result from the merger or the costs to integrate the operations of Chesapeake and Florida Public Utilities or any non-recurring charges that may result from the merger. The Unaudited Pro Forma Condensed Combined Financial Statements also do not reflect the impact of financing, liquidity or other balance sheet repositioning that may be undertaken in connection with or subsequent to the merger.

Unaudited Pro Forma Condensed Combined Statement of Income for the Six Months Ended June 30, 2009

	Chesapeake	Florida Public Utilities(q)	Pro Forma Adjustments	Pro Forma Combined
	(In thousands, except for share and per-share data)			
Operating Revenues	$ 145,313	$ 76,148	$ —	$ 221,461
Operating Expenses:				
Cost of sales, excluding costs below:	91,689	47,688	—	139,377
Operations and maintenance	25,152	17,102	(381)(a)	41,873
Transaction costs	1,204	539	(1,743)(b)	—
Depreciation and amortization	4,797	4,659	146(c)	9,602
Other taxes	3,649	1,690	—	5,339
Total Operating Expenses	126,491	71,678	(1,978)	196,191
Operating Income	18,822	4,470	1,978	25,270
Other income, net of other expenses	45	529	—	574
Interest charges	3,215	2,269	—(d)	5,484
Income Before Income Taxes	15,652	2,730	1,978	20,360
Income taxes	6,253	982	788(e)	8,023
Net Income	$ 9,399	$ 1,748	$ 1,190	$ 12,337
Earnings Per Share				
Basic	$ 1.37	$ 0.28		$ 1.32
Diluted	$ 1.36	$ 0.28		$ 1.31
Weighted Average Shares Outstanding				
Basic	6,847,543	6,120,101		9,326,184(f)
Diluted	6,963,132	6,120,101		9,441,773(f)

See accompanying notes to the unaudited pro forma condensed combined financial statements. The pro forma adjustments are explained in Note 6 beginning on page 95.

Unaudited Pro Forma Condensed Combined Statement of Income for the Year Ended December 31, 2008

	Chesapeake(q)	Florida Public Utilities(q)	Pro Forma Adjustments	Pro Forma Combined
	(In thousands, except share and per-share data)			
Operating Revenues	$ 291,444	$ 159,848	$ —	$ 451,292
Operating Expenses				
Cost of sales, excluding costs below	200,644	108,621	—	309,265
Operations and maintenance	45,691	29,359	(981)(a)	74,069
Transaction costs	1,153	493	—	1,646
Depreciation and amortization	9,005	8,912	291(c)	18,208
Other taxes	6,472	3,354	—	9,826
Total Operating Expenses	262,965	150,739	(690)	413,014
Operating Income	28,479	9,109	690	38,278
Other income, net of other expenses	103	996	—	1,099
Interest charges	6,158	4,816	—(d)	10,974
Income Before Income Taxes	22,424	5,289	690	28,403
Income taxes	8,817	1,803	311(e)	10,931
Net Income	$ 13,607	$ 3,486	$ 379	$ 17,472
Earnings Per Share				
Basic	$ 2.00	$ 0.57		$ 1.88
Diluted	$ 1.98	$ 0.57		$ 1.86
Weighted Average Shares Outstanding				
Basic	6,811,848	6,087,441		9,277,262(f)
Diluted	6,927,483	6,087,441		9,392,897(f)

See accompanying notes to the unaudited pro forma condensed combined financial statements. The pro forma adjustments are explained in Note 6 beginning on page 95.

Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2009

	Chesapeake	Florida Public Utilities(r)	Pro Forma Adjustments	Pro Forma Combined
		(In thousands)		
Assets				
Net Property, Plant and Equipment	$287,016	$145,029	$ 6,090(g)	$438,135
Current Assets				
Cash and cash equivalents	1,614	2,084	(643)(h)	3,055
Accounts receivable, net	31,062	10,863	—	41,925
Accrued revenue	1,605	2,042	—	3,647
Notes receivable	—	5,724	—	5,724
Inventory	5,829	3,352	—	9,181
Regulatory assets	589	1,843	—	2,432
Storage gas prepayments	5,847	—	—	5,847
Deferred income taxes	3,053	459	198(o)	3,710
Other current Assets	4,243	1,693	—	5,936
Total Current Assets	53,842	28,060	(445)	81,457
Deferred Charges and Other Assets				
Goodwill	674	2,405	27,051(k) (2,405)(j)	27,725
Other intangible assets, net	157	2,800	(2,800)(j)	157
Regulatory assets	2,699	9,220	5,340(m) 349(o)	17,608
Other deferred charges and other assets	5,901	7,497	—	13,398
Total Deferred Charges and Other Assets	9,431	21,922	27,535	58,888
Total Assets	$350,289	$195,011	$ 33,180	$578,480
Capitalization and Liabilities				
Capitalization				
Stockholders' equity				
Preferred Stock	$ —	$ 600	$ (600)(h)	$ —
Common stock	3,344	9,326	(8,119)(p)	4,551
Additional paid-in capital	68,352	6,255	66,932(p)	141,539
Retained earnings	61,931	36,703	(36)(h) (3,757)(i) (413)(l) (533)(o) (36,114)(p)	57,781
Accumulated other comprehensive loss	(3,600)	(413)	413(l)	(3,600)
Deferred compensation obligation	1,315	—	—	1,315
Treasury stock	(1,315)	(1,632)	1,632(p)	(1,315)
Total Stockholders' Equity	130,027	50,839	19,405	200,271
Long-Term Debt, Net of Current Maturities	86,313	46,452	5,340(m)	138,105
Total Capitalization	216,340	97,291	24,745	338,376

	Chesapeake	Florida Public Utilities(r)	Pro Forma Adjustments	Pro Forma Combined
		(In thousands)		
Current Liabilities				
Current portion of long-term debt	6,656	1,409	—	8,065
Short-term borrowings	2,000	—	—	2,000
Accounts payable and other accruals	29,166	15,025	3,757(i) 1,875(n)	49,823
Customer deposits and refunds	7,632	13,228	—	20,860
Dividends payable	2,164	726	(7)(h)	2,883
Regulatory liabilities	6,719	3,703	—	10,422
Other accrued liabilities	3,421	4,639	—	8,060
Total Current Liabilities	57,758	38,730	5,625	102,113
Deferred Credits and Other Liabilities				
Deferred income taxes	41,967	18,368	2,810(o)	63,145
Regulatory liabilities	837	13,866	—	14,703
Environmental liabilities	469	10,949	—	11,418
Other pension and benefit costs	7,502	13,438	—	20,940
Accrued asset removal cost and other liabilities	25,416	2,369	—	27,785
Total Deferred Credits and Other Liabilities	76,191	58,990	2,810	137,991
Total Capitalization and Liabilities	$350,289	$195,011	$ 33,180	$578,480

See accompanying notes to the unaudited pro forma condensed combined financial statements. The pro forma adjustments are explained in Note 6 beginning on page 95.

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements

1. Description of Transaction

On April 20, 2009, Chesapeake and Florida Public Utilities announced a definitive merger agreement, pursuant to which Florida Public Utilities will merge with a wholly owned subsidiary of Chesapeake. The merger was unanimously approved by both companies' respective boards of directors on April 17, 2009. Under the merger agreement, holders of Florida Public Utilities common stock will receive 0.405 shares of Chesapeake's common stock in exchange for each outstanding share of Florida Public Utilities.

The merger agreement contains certain termination rights for Chesapeake and Florida Public Utilities, including the right to terminate the merger agreement if the merger is not completed by January 31, 2010 (subject to possible extension to March 31, 2010 under specified circumstances). The merger agreement further provides that, upon termination of the merger agreement under certain circumstances involving a third-party takeover proposal of Florida Public Utilities or a change in the Florida Public Utilities board of directors' recommendation of the merger, Florida Public Utilities would be required, subject to certain conditions, to pay Chesapeake a termination fee of $3.4 million.

The merger is intended to qualify as a tax-free reorganization and is subject to various regulatory approvals as well as approval by the shareholders of both companies. The merger is expected to be completed during the fourth quarter of 2009.

2. Basis of Presentation

The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting and was based on the historical financial statements of Chesapeake and Florida Public Utilities. Certain adjustments have been made to the historical financial statements of Florida Public Utilities to conform to Chesapeake's presentation. The adjustments to the historical statements of income are related to the presentation of acquisition-related and other transaction costs and taxes collected from customers that are remitted to governmental authorities. These adjustments are for classification and presentation purposes only and did not change historical operating income or net income of the companies. The adjustment to the historical balance sheet is related to reclassification of software assets from other intangible assets to property, plant and equipment.

The acquisition method of accounting is based on SFAS No. 141(R), *Business Combinations*, which Chesapeake adopted on January 1, 2009 and uses the fair value concepts defined in SFAS No. 157, *Fair Value Measurements*, which Chesapeake has adopted as required. The unaudited pro forma condensed combined financial information was prepared using the acquisition method of accounting, under these existing U.S. GAAP standards, which are subject to change and interpretation.

SFAS No. 141(R) requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. In addition, SFAS No. 141(R) establishes that the consideration transferred be measured at the closing date of the merger at the then-current market price; this particular requirement will likely result in an amount of consideration transferred that is different from the amount assumed in these unaudited pro forma condensed combined financial statements.

SFAS No. 157 defines the term "fair value" and sets forth the valuation requirements for all assets and liabilities measured at fair value in accordance with SFAS No. 141(R), expands related disclosure requirements and specifies a hierarchy of valuation inputs based on the nature of the inputs used to develop the fair value measures. Fair value is defined in SFAS No. 157 as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." In addition, market participants are assumed to be buyers and sellers in the principal (or the most advantageous) market for the asset or liability and fair value measurements for an asset assume the highest and best use by these market participants. Accordingly, certain fair value measurements may not reflect Chesapeake's intended use of those assets. Many of these fair value measurements can be highly subjective and it is also possible that

others applying reasonable judgment to the same facts and circumstances could develop and support a range of alternative estimated amounts.

Under SFAS No. 141(R), acquisition-related transaction costs are not included as a component of consideration transferred but are accounted for as expenses in the periods in which the costs are incurred. Total acquisition-related transaction costs expected to be incurred by Chesapeake and Florida Public Utilities are estimated to be approximately $5.5 million, of which $1.7 million had been incurred in the six months ended June 30, 2009 and included in the historical financial statements. The remaining $3.8 million is reflected in the unaudited pro forma condensed combined financial statements as an increase in accounts payable and other accruals and a reduction to retained earnings.

3. Accounting Policies

Upon consummation of the merger, Chesapeake will review Florida Public Utilities' accounting policies. As a result of that review, it may become necessary to harmonize the combined entity's financial statements to conform to those accounting policies that are determined to be more appropriate for the combined entity. At this time, Chesapeake is aware of the difference in accounting policy regarding presentation of taxes collected from customers that are remitted to governmental authorities. The historical financial information of Florida Public Utilities has been adjusted to conform to the accounting policy of Chesapeake. The unaudited pro forma condensed combined financial statements do not assume any other differences in accounting policies.

4. Estimate of Consideration Expected to be Transferred

The following is a preliminary estimate of consideration expected to be transferred to effect the merger (in thousands, except share and per-share data):

Number of Florida Public Utilities common shares outstanding, as of June 30, 2009	6,124,989
Exchange ratio	0.405
Total Chesapeake common shares issued	2,480,621
Chesapeake's stock price	$ 29.99
Estimated purchase price	$ 74,394

Chesapeake's assumed stock price used in determining the estimate of consideration expected to be transferred is based on Chesapeake's closing price on August 17, 2009. The estimated consideration expected to be transferred reflected in these unaudited pro forma condensed combined financial statements does not purport to represent what the actual consideration transferred will be when the merger is consummated. As discussed in Note 2, the fair value of equity securities issued for consideration transferred in the merger will be measured on the closing date of the merger at the then-current market price in accordance with SFAS No. 141(R) and this requirement may result in a material difference in the amount of the consideration transferred in the merger.

Since the announcement of the merger on April 20, 2009, Chesapeake's common stock closing prices ranged from $28.18 to $34.63 per share, which translate to an estimated purchase price range of $69.9 million to $85.9 million.

5. Estimate of Assets to be Acquired and Liabilities to be Assumed

The following is a preliminary estimate of the assets to be acquired and the liabilities to be assumed in the merger, reconciled to the estimate of consideration expected to be transferred (in thousands):

Historical book value of net assets acquired prior to adjustments(1)	$50,839
Adjusted for:	
Elimination of existing goodwill and intangible assets of Florida Public Utilities(2)	(5,205)
Elimination of deferred tax asset related to merger-related transaction costs(3)	(140)
Cash redemption of Florida Public Utilities preferred stock(4)	(636)
Adjusted book value of net assets acquired prior to fair value adjustments	44,858
Preliminary adjustments for fair value to:	
Property, plant and equipment(5)	6,090
Identifiable intangible assets(6)	—
Long-term debt(7)	—
Deferred tax assets and liabilities(8)	(1,730)
Contractual contingencies(9)	(1,875)
Fair value of net assets acquired	$47,343
Purchase price(10)	74,394
Goodwill(11)	$27,051

(1) The amount represents the historical net book value of Florida Public Utilities as of June 30, 2009.

(2) $2.4 million of goodwill and $2.8 million of customer distribution right intangible assets from Florida Public Utilities' previous acquisitions are eliminated.

(3) As of June 30, 2009, Florida Public Utilities recorded $140,000 in deferred tax asset related to the merger-related transaction costs. Florida Public Utilities assessed the income tax effect of merger-related transaction costs without assuming the merger will ultimately occur. This deferred tax asset will reverse upon obtaining all necessary approvals to complete the merger.

(4) Redemption of the 6,000 shares of Florida Public Utilities preferred stock will occur prior to the closing of the merger. The redemption price is $106 per share of preferred stock, compared to $100 per share of par and carrying value.

(5) The fair value adjustment to property, plant and equipment is related to the real estate and propane assets that are not subject to regulatory jurisdiction. The preliminary determination of fair value of the real estate assets is based on available market information. The preliminary determination of fair value of propane assets is based on the approximate fair value of new assets adjusted for estimated depreciation and obsolescence based on the age of the assets and economic lives. Chesapeake relied on its own experience with similar propane assets to estimate the fair value. For purpose of these unaudited pro forma condensed combined financial statements, Chesapeake assumed that the fair value of property, plant and equipment for Florida Public Utilities' regulated operations is not materially different from their net book value as those assets are subject to rate regulation and provide a certain return on those assets as approved by the regulatory authority. The estimated fair value adjustment of property, plant and equipment is preliminary, subject to change and could vary materially from the actual adjustment calculated after consummation of the merger and completion of valuations and other studies.

(6) Intangible assets that meet either the separability or contractual-legal criterion described in SFAS No. 141(R) are required to be identified and recorded at their fair value. At this time, Chesapeake has not identified and does not have sufficient information as to the amount, timing and risk of cash flows of all possible intangible assets. For the purpose of these unaudited pro forma condensed combined financial statements, Chesapeake estimates that customer relationships and commodity forward contracts meet those criteria as intangible assets and the preliminary estimates of their fair values is not significant. The fair value of customer relationships is determined using the "income method," which is based on the

present value of the after-tax "excess earnings" attributed to the intangible asset, and the fair value of commodity contracts is based on available market information on the relevant forward curves/prices. For the purpose of these unaudited pro forma condensed combined financial statements, Chesapeake assumed that there is no significant "excess earnings" generated by the intangible assets of Florida Public Utilities' regulated operations as earnings from regulated operations are based on rates determined by the regulatory authority to provide a certain return on only the tangible assets. Chesapeake also assumes that any value assigned to natural gas and electric commodity forward contracts for Florida Public Utilities' regulated operations, whether positive or adverse, is subject to the fuel-cost recovery mechanism and will not result in a net adjustment to the book value of net assets. The estimated fair value of identifiable intangible assets is preliminary, subject to change and could vary materially from the actual amount calculated after consummation of the merger and completion of valuations and other studies. Those studies could also reveal additional intangible assets.

(7) The fair value of long-term debt of Florida Public Utilities was estimated by discounting the future cash flows of each issuance at rates currently offered to similar entities for similar debt instruments of comparable maturities. This resulted in a fair value adjustment of $5.3 million to increase the value of long-term debt. Since all of Florida Public Utilities' long-term debt is subject to rate regulations, the increase in the value of long-term debt resulted in a corresponding regulatory asset for the same amount. As two adjustments offset each other, there is no net impact to the value of net assets.

(8) Deferred tax adjustment is related to the following:

(i) $8,000 of current deferred tax assets increase and $461,000 of non-current deferred tax liabilities increase for Florida Public Utilities due to the change in the estimated tax rate in effect in the years, in which the differences between the financial statement bases and income tax bases of assets and liabilities are expected to reverse, after the merger (the change is primarily due to the expected increase in the effective Federal income tax rate from 34% to 35% after the merger);

(ii) $1.6 million of a net deferred tax liability increase related to the acquisition adjustments; and

(iii) $349,000 of corresponding income tax-related regulatory assets associated with the increase in net deferred tax liabilities for Florida Public Utilities' regulated operations from (i) and (ii) above.

(9) Certain employment agreements of Florida Public Utilities require change of control or stay-bonus payments upon consummation of the merger. The liability related to these payments is considered contract-based contingencies assumed in the merger for the purpose of unaudited condensed combined pro forma financial statements.

(10) Represents the estimated consideration expected to be transferred. See Note 4 for further detail.

(11) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the value assigned to the assets acquired and liabilities assumed. Goodwill is not amortized.

6. Pro Forma Adjustments

This note should be read in conjunction with other notes in the unaudited pro forma condensed combined financial statements. Adjustments included in the columns under the heading "Pro Forma Adjustments" represent the following:

(a) To reflect the decrease in compensation and benefits related expenses after the merger due to the following:

(i) the decrease in net periodic pension and post-retirement benefit expense of Florida Public Utilities resulted from eliminating amortization of prior service costs and deferred net gain/loss due to recording of the amounts previously recognized in accumulated other comprehensive income in connection with the acquisition accounting. (Florida Public Utilities included $179,000 and $719,000 related to amortization of prior service costs and $54,000 and $0 related to the amortization of net gain in its historical financial statements for the six months ended June 30, 2009 and year ended December 31, 2008, respectively); and

(ii) the reduction in expense related to John T. English, whose employment arrangement will be terminated and replaced by a consulting arrangement upon consummation of the merger. Chesapeake estimates a reduction of $148,000 and $262,000 for the six months ended June 30, 2009 and year ended December 31, 2008, respectively, in compensation and benefits related expenses from this change.

(b) To eliminate transaction costs included in the historical financial statements. Acquisition-related transaction costs incurred in the six months ended June 30, 2009 are directly attributable to the merger and are considered non-recurring.

(c) To reflect the net incremental depreciation and amortization expense on property, plant and equipment. The net incremental depreciation and amortization expense on property, plant and equipment results from the fair value adjustment to Florida Public Utilities real estate and propane assets (see Note 5) and is calculated using estimated asset lives ranging from 12 years to 55 years.

(d) To reflect the net reduction in interest expense on Florida Public Utilities' long-term debt as a result of the acquisition adjustment to reflect the fair value of long-term debt (see Note 5), which incorporates the following:

(i) elimination of $50,000 and $100,000 of interest expense related to amortization of the existing debt discount for the six months ended June 30, 2009 and year ended December 31, 2008, respectively, included in the historical financial statements;

(ii) estimated amortization of debt premium of $230,000 and $460,000 for the six months ended June 30, 2009 and year ended December 31, 2008, respectively, resulting from the fair value adjustment of long-term debt; and

(iii) the net reduction in interest expense above is offset by the increase in interest expense from amortization of a corresponding regulatory asset from the fair value adjustment of long-term debt (see Note 5). The net impact to interest expense is $0 for both the six months ended June 30, 2009 and year ended December 31, 2008.

(e) To reflect the following adjustments to income taxes:

(i) $25,000 and $45,000 related to the change in the Federal statutory income tax rate of Florida Public Utilities from 34% as included in its historical financial statements to the estimated rate of 35% after the merger for the six months ended June 30, 2009 and year ended December 31, 2008, respectively; and

(ii) $763,000 and $266,000 related to the tax effect of the above pro forma adjustments to revenues and expenses based on the estimated effective income tax rate of 38.6% for the six months ended June 30, 2009 and year ended December 31, 2008, respectively.

(f) The pro forma combined weighted average shares outstanding are calculated by adding (i) Chesapeake's historical weighted average shares outstanding and (ii) Florida Public Utilities' historical weighted average common shares outstanding multiplied by the exchange ratio of 0.405 per share.

(g) To adjust Florida Public Utilities' property, plant and equipment related to propane and real estate assets to the estimated fair value (see Note 5).

(h) To reflect redemption of the Florida Public Utilities' preferred stock, which is stipulated in the merger agreement to occur prior to the closing of the merger.

(i) To reflect $3.8 million in estimated additional acquisition-related transaction costs to consummate the merger that are not yet incurred in the historical financial statements.

(j) To eliminate existing goodwill and intangible assets of Florida Public Utilities included in the historical financial statements (see Note 5).

(k) To record goodwill recognized in the merger (see Note 5).

(l) To eliminate Florida Public Utilities' accumulated other comprehensive income included in the historical financial statements. Florida Public Utilities' accumulated other comprehensive income was comprised of unamortized gains/losses and prior service costs related to its pension and post-retirement benefit plans.

(m) To adjust the net book value of Florida Public Utilities' long-term debt to their estimated fair value and establish a corresponding regulatory asset as all of its long-term debt is subject to rate regulation (see Note 5).

(n) To record the liability assumed in the merger to certain employees of Florida Public Utilities for change of control and stay-bonus payments as stipulated in their individual employment contract.

(o) To reflect the following adjustments to deferred tax assets and liabilities:

(i) reversal of deferred tax assets related to merger-related transaction costs recorded by Chesapeake and Florida Public Utilities of $393,000 and $140,000, respectively, as these deferred tax assets were recorded without assuming the merger will ultimately occur;

(ii) adjustment to existing deferred tax assets and liabilities of Florida Public Utilities ($8,000 of current deferred tax assets increase and $461,000 of non-current deferred tax liabilities increase) due to the change in the estimated tax rate in effect in the years, in which the differences between the financial statement bases and income tax bases of assets and liabilities are expected to reverse, after the merger as well as $349,000 of corresponding income-tax related regulatory assets; and

(iii) impact on deferred tax assets and liabilities related to the acquisition adjustments.

(p) To reflect the issuance of Chesapeake's common stock as the merger consideration (see Note 4) and to eliminate Florida Public Utilities' common stockholders' equity.

(i)	Common stock (in thousands):	
	Elimination of Florida Public Utilities common stock	$ (9,326)
	Issuance of Chesapeake's common stock at par value	1,207
	Total	$ (8,119)
(ii)	Additional paid-in capital (in thousands):	
	Elimination of Florida Public Utilities additional paid-in capital	$ (6,255)
	Issuance of Chesapeake's common stock above par value, at estimated market price	73,187
	Total	$ 66,932
(iii)	Retained earnings (in thousands):	
	Elimination of Florida Public Utilities historical retained earnings	$(36,703)
	Effect of adjustments to Florida Public Utilities historical retained earnings from (h) (l) and (o) above	589
	Total	$(36,114)
(iv)	Treasury stock (in thousands):	
	Elimination of Florida Public Utilities treasury stock	$ 1,632

The unaudited pro forma condensed combined financial statements include the following adjustments to the historical financial information of Chesapeake and Florida Public Utilities:

(q) Florida Public Utilities' historical information for the six months ended June 30, 2009 and year ended December 31, 2008 include the effect of reclassifying $539,000 and $493,000, respectively, of acquisition-related and other transaction costs and excluding $4.6 million and $8.7 million, respectively, of taxes collected from customers that are remitted to governmental authorities from operating revenues and cost of sales to conform with Chesapeake's presentation.

(r) Florida Public Utilities' historical information as of June 30, 2009 includes the effect of reclassifying $1.1 million of net software from other intangible assets to net property, plant and equipment to conform with Chesapeake's presentation.

INFORMATION ABOUT THE MEETINGS AND VOTING

The Chesapeake board of directors is using this joint proxy statement/prospectus to solicit proxies from the holders of Chesapeake common stock for use at the special meeting of Chesapeake's shareholders. The Florida Public Utilities board of directors is using this document to solicit proxies from the holders of Florida Public Utilities common stock for use at the special meeting of Florida Public Utilities' shareholders. The companies are first mailing this joint proxy statement/prospectus and accompanying form of proxy to Chesapeake and Florida Public Utilities shareholders on or about September 15, 2009.

Matters Relating to the Meetings

	Chesapeake Meeting	**Florida Public Utilities Meeting**
Date, Time and Place:	October 22, 2009 at 9:00 a.m., Eastern Daylight Time, in the Board Room of PNC Bank, Delaware, located at 222 Delaware Avenue, Wilmington, Delaware 19801.	October 22, 2009 at 11:00 a.m., Eastern Daylight Time, at Florida Public Utilities' corporate headquarters, located at 401 South Dixie Highway, West Palm Beach, Florida 33401.
Admission to Meeting:	All holders of Chesapeake common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, custodians or other record holders, are invited to attend the Chesapeake special meeting. Holders of record of Chesapeake common stock as of the record date can vote in person at the Chesapeake special meeting. If you are not a shareholder of record, you must obtain a valid proxy, executed in your favor, from the record holder of your shares, such as a bank, broker, custodian or other record holder, to be able to vote in person at the Chesapeake special meeting. Your bank, broker or other custodian can assist in obtaining a valid proxy. If you plan to attend the Chesapeake special meeting, you must hold your shares in your own name, have a letter from the record holder of your shares or other evidence confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. Chesapeake reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification.	All holders of Florida Public Utilities common stock, including shareholders of record and shareholders who hold their shares through banks, brokers, custodians or other record holders, are invited to attend the Florida Public Utilities special meeting. Holders of record of Florida Public Utilities common stock as of the record date can vote in person at the Florida Public Utilities special meeting. If you are not a shareholder of record, you must obtain a valid proxy, executed in your favor, from the record holder of your shares, such as a bank, broker, custodian or other record holder, to be able to vote in person at the Florida Public Utilities special meeting. Your bank, broker or other custodian can assist in obtaining a valid proxy. If you plan to attend the Florida Public Utilities special meeting, you must hold your shares in your own name, have a letter from the record holder of your shares or other evidence confirming your ownership and you must bring a form of personal photo identification with you in order to be admitted. Florida Public Utilities reserves the right to refuse admittance to anyone without proper proof of share ownership or without proper photo identification.

	Chesapeake Meeting	Florida Public Utilities Meeting
Purpose of Meeting:	To vote on: • a proposal to adopt the merger agreement and approve of the merger and the issuance of Chesapeake common stock in the merger; and • a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.	To vote on: • a proposal to approve the merger agreement and the merger; and • a proposal to approve the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies, in the event that there are not sufficient votes at the time of the special meeting to approve the foregoing proposal.
Record Date:	The record date for Chesapeake shares entitled to vote is August 24, 2009.	The record date for Florida Public Utilities shares entitled to vote is August 24, 2009.
Outstanding Shares Held:	As of August 24, 2009, the record date for the Chesapeake special meeting, there were approximately 6,883,593 shares of Chesapeake common stock outstanding.	As of August 24, 2009, the record date for the Florida Public Utilities special meeting, there were approximately 6,140,592 shares of Florida Public Utilities common stock outstanding.
Shares Entitled to Vote:	Shares entitled to vote at the Chesapeake special meeting are Chesapeake common stock held as of the close of business on the record date, August 24, 2009. Each share of Chesapeake common stock is entitled to one vote. Shares held by Chesapeake and its subsidiaries as treasury shares are not voted.	Shares entitled to vote at the Florida Public Utilities special meeting are Florida Public Utilities common stock held as of the close of business on the record date, August 24, 2009. Each share of Florida Public Utilities common stock is entitled to one vote. Shares held by Florida Public Utilities and its subsidiary as treasury shares are not voted.
Quorum Requirement:	A quorum of shareholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of holders of a majority of the outstanding shares of Chesapeake stock entitled to vote at the meeting is a quorum. Abstentions and broker non-votes count as present and entitled to vote for establishing a quorum. Shares held by Chesapeake and its subsidiaries as treasury shares do not count toward a quorum. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instruction from the beneficial owner of the shares and no instruction is given.	A quorum of shareholders is necessary to hold a valid meeting. The presence in person or by proxy at the meeting of holders of a majority of the outstanding shares of Florida Public Utilities common stock entitled to vote at the meeting is a quorum. Abstentions and broker non-votes count as present and entitled to vote for establishing a quorum. Shares held by Florida Public Utilities and its subsidiary as treasury shares do not count toward a quorum. A broker non-vote occurs on an item when a broker is not permitted to vote on that item without instruction from the beneficial owner of the shares and no instruction is given.

	Chesapeake Meeting	Florida Public Utilities Meeting
Shares Beneficially Owned by Chesapeake and Florida Public Utilities Directors and Executive Officers as of Record Date:	Chesapeake directors and officers beneficially owned 314,363 shares of Chesapeake common stock on the record date. These shares represent in total approximately 4.6% of the total voting power of Chesapeake's voting securities.	Florida Public Utilities directors and officers beneficially owned 351,192 shares of Florida Public Utilities common stock on the record date. These shares represent in total approximately 5.7% of the total voting power of Florida Public Utilities' common stock.

Vote Necessary to Approve the Chesapeake and Florida Public Utilities Proposals

Company	Vote Necessary
Chesapeake	Adoption of the merger agreement and approval of the merger and the issuance of shares of Chesapeake common stock in the merger requires the affirmative vote of at least a majority of the outstanding shares of Chesapeake common stock. If there is a quorum, approval of any necessary or appropriate adjournment of the special meeting requires the affirmative vote of a majority of the votes cast by all shareholders entitled to vote. In the absence of a quorum, the special meeting may be adjourned by the approval of the majority of the voting power of the outstanding shares present and entitled to vote at the special meeting.
Florida Public Utilities	Approval of the merger agreement and the merger requires the affirmative vote of at least a majority of the outstanding shares of Florida Public Utilities common stock. If there is a quorum, approval of any necessary or appropriate adjournment of the special meeting requires the affirmative vote of a majority of the votes cast by all shareholders entitled to vote. In the absence of a quorum, the special meeting may be adjourned by the approval of the majority of the voting power of the outstanding shares present and entitled to vote at the special meeting.

Under New York Stock Exchange rules, if your broker holds your shares in its name, your broker may not vote your shares on the proposals above absent instructions from you. Without your voting instructions on those items, a broker non-vote will occur.

Proxies

Submitting Your Proxy. You may vote in person by ballot at your special meeting or by submitting a proxy. Please submit your proxy even if you plan to attend the respective special meeting. If you attend the special meeting, you may vote by ballot, thereby canceling any proxy previously given.

Voting instructions are included on your proxy card. If you properly give your proxy and submit it to Chesapeake or Florida Public Utilities, as the case may be, in time to vote, one of the individuals named as your proxy will vote your shares as you have directed. You may vote for or against the proposals or abstain from voting.

How to Vote by Proxy

	Chesapeake	Florida Public Utilities
By Mail:	To submit your proxy by mail, complete, date and sign your proxy card, and if you are a shareholder of record, return it to Proxy Services, c/o Computershare Investor Services, in the postage-paid envelope provided. If the envelope is missing, please address your completed proxy card to Chesapeake Utilities Corporation c/o Proxy Services, c/o Computershare Investor Services, PO Box 43101, Providence, RI 02940-5067. If you are a beneficial owner, please refer to your proxy card or the information provided to you by your bank, broker, custodian or other record holder.	To submit your proxy by mail, complete, date and sign your proxy card, and if you are a shareholder of record, return it to American Stock Transfer & Trust Co., LLC, in the postage-paid envelope provided. If the envelope is missing, please address your completed proxy card to Florida Public Utilities Company c/o Operations Center, American Stock Transfer & Trust & Co., LLC, 6201 15th Avenue, Brooklyn, NY 11219. If you are a beneficial owner, please refer to your proxy card or the information provided to you by your bank, broker, custodian or other record holder.
By Telephone:	If you are a shareholder of record, you can submit your proxy by telephone by calling the toll-free telephone number on your proxy card. Telephone voting is available 24 hours a day and will be accessible until 11:59 p.m. Eastern Daylight Time on October 21, 2009. Easy-to-follow voice prompts allow you to submit your proxy and confirm that your instructions have been properly recorded. If you are a beneficial owner, please refer to your proxy card or the information provided by your bank, broker, custodian or other record holder for information on whether telephone voting is available to you. You will be given the opportunity to confirm that your instructions have been properly recorded. **If you submit your proxy by telephone you do not need to return your proxy card. If you are located outside the United States, Canada and Puerto Rico, see your proxy card or other materials for additional instructions. If you hold shares through a bank, broker, custodian or other record holder, please check the voting form used by that firm to see if it offers telephone voting.**	If you are a shareholder of record, you can submit your proxy by telephone by calling the toll-free telephone number on your proxy card. Telephone voting is available 24 hours a day and will be accessible until 11:59 p.m. Eastern Daylight Time on October 21, 2009. Easy-to-follow voice prompts allow you to submit your proxy and confirm that your instructions have been properly recorded. If you are a beneficial owner, please refer to your proxy card or the information provided by your bank, broker, custodian or other record holder for information on whether telephone voting is available to you. You will be given the opportunity to confirm that your instructions have been properly recorded. **If you submit your proxy by telephone you do not need to return your proxy card. If you are located outside the United States, Canada and Puerto Rico, see your proxy card or other materials for additional instructions. If you hold shares through a bank, broker, custodian or other record holder, please check the voting form used by that firm to see if it offers telephone voting.**

	Chesapeake	Florida Public Utilities
By Internet:	If you are a shareholder of record, the secure website for Internet voting can be found on your proxy card. Internet voting is available 24 hours a day, and will be accessible until 11:59 p.m. Eastern Daylight Time on October 21, 2009. If you are a beneficial owner, please refer to your proxy card or the information provided by your bank, broker, custodian or other record holder for information on whether Internet voting is available to you. You will be given the opportunity to confirm that your instructions have been properly recorded. **If you submit your proxy over the Internet, you do not need to return your proxy card.** If you hold shares through a bank, broker, custodian or other record holder, please check the voting form to see if it offers Internet voting.	If you are a shareholder of record, the secure website for Internet voting can be found on your proxy card. Internet voting is available 24 hours a day, and will be accessible until 11:59 p.m. Eastern Daylight Time on October 21, 2009. If you are a beneficial owner, please refer to your proxy card or the information provided by your bank, broker, custodian or other record holder for information on whether Internet voting is available to you. You will be given the opportunity to confirm that your instructions have been properly recorded. **If you submit your proxy over the Internet, you do not need to return your proxy card.** If you hold shares through a bank, broker, custodian or other record holder, please check the voting form to see if it offers Internet voting.

The proxy confers discretionary authority to the named proxies. Accordingly, if you submit your proxy but do not make specific choices, your proxy will follow the respective board of director recommendations and vote your shares as follows:

Chesapeake	Florida Public Utilities
• "FOR" adoption of the merger agreement and the approval of the merger and the issuance of Chesapeake common stock in the merger; and	• "FOR" approval of the merger agreement and the merger; and
• "FOR" the adjournment of the Chesapeake special meeting if necessary or appropriate to permit further solicitation of proxies.	• "FOR" the adjournment of the Florida Public Utilities special meeting if necessary or appropriate to permit further solicitation of proxies.

With respect to the proposals above, if you do not instruct your bank, broker or other custodian how to vote your shares of Chesapeake or Florida Public Utilities common stock, those shares will not be voted at your special meeting, and such bank, broker or other nominee will not be authorized to vote.

Proxies for Participants in Chesapeake's 401(k) Plan

If you are a participant in Chesapeake's 401(k) Retirement Savings Plan, you will receive proxy materials and a proxy card from the trustee of the Plan. You can complete the proxy card in order to instruct the trustee how to vote the shares of stock that are allocated to your account. If you do not instruct the trustee how to vote your shares, the trustee will vote them, based upon the recommendation of the Chesapeake board of directors, in favor of the adoption of the merger agreement and approval of the merger and the issuance of Chesapeake common stock in the merger and in favor of adjournment of the Chesapeake special meeting if necessary or appropriate to permit further solicitation of proxies. Likewise, the trustee will vote shares that have not been allocated to any account in the same manner.

Householding Information

Each of Chesapeake and Florida Public Utilities has adopted the procedure approved by the SEC called "householding." Under this procedure, shareholders of record who have the same address and last name will receive only one copy of this joint proxy statement/prospectus unless Chesapeake or Florida Public Utilities, as applicable, has previously received contrary instructions from one or more of such shareholders. This

procedure will reduce the printing costs and postage fees of Chesapeake and Florida Public Utilities in connection with this joint proxy statement/prospectus and of the combined company for future annual reports and proxy statements. Shareholders who participate in householding will continue to receive separate proxy cards. Householding will not in any way affect dividend check mailings.

Each Chesapeake or Florida Public Utilities shareholder who holds shares in "street name" will continue to receive a voting instruction form. Chesapeake and Florida Public Utilities shareholders who hold shares in "street name" can request further information on householding through their banks, brokers, custodians or other record holders.

On written or oral request to Chesapeake Utilities Corporation, Corporate Secretary, 909 Silver Lake Boulevard, Dover, DE 19904, (302) 734-6799, Chesapeake will deliver promptly a separate copy of this joint proxy statement/prospectus to a Chesapeake shareholder at a shared address to which a single copy of this joint proxy statement/prospectus was delivered. Similarly, on written or oral request to Florida Public Utilities Company, Secretary, 401 South Dixie Highway, West Palm Beach, Florida 33401, (561) 832-0872, Florida Public Utilities will deliver promptly a separate copy of this joint proxy statement/prospectus to a Florida Public Utilities shareholder at a shared address to which a single copy of this joint proxy statement/prospectus was delivered.

Chesapeake or Florida Public Utilities shareholders sharing an address who wish, in the future, to receive separate copies or a single copy of Chesapeake's or Florida Public Utilities' proxy statements and annual reports should provide written or oral notice to Chesapeake or Florida Public Utilities, as applicable, at the applicable address and telephone number set forth above. Holders in "street name" who wish, in the future, to receive separate copies or a single copy of Chesapeake's or Florida Public Utilities' proxy statements and annual reports must contact their banks and brokers.

Revoking Your Proxy

If you submit a completed proxy card with instructions on how to vote your shares and then wish to revoke your instructions, you should submit a notice of revocation to Chesapeake or Florida Public Utilities, as appropriate, as soon as possible. You may revoke your proxy at any time before it is voted by:

- timely delivery of a valid, later-dated proxy or timely submission of a later-dated proxy by telephone or Internet;
- notifying, in the case of a Chesapeake shareholder, Chesapeake's Corporate Secretary and, in the case of a Florida Public Utilities shareholder, Florida Public Utilities' Secretary, that you are revoking your proxy by written notice that bears a date later than the date of the proxy and that is received prior to your special meeting and states that you revoke your proxy; or
- voting by ballot at either the Chesapeake special meeting or Florida Public Utilities special meeting.

Voting in Person

If you are a shareholder of record and you wish to vote in person at the Chesapeake or Florida Public Utilities special meeting, a ballot will be provided at the meeting. However, if your shares are held in the name of your bank, broker, custodian or other record holder, you must obtain a valid proxy, executed in your favor, from the record holder to be able to vote at the meeting. Your bank, broker or other custodian can assist you in obtaining a valid proxy.

Proxy Solicitation

Chesapeake and Florida Public Utilities will each pay its own costs of soliciting proxies.

In addition to this mailing, proxies may be solicited by directors, officers or employees of Chesapeake or Florida Public Utilities in person or by telephone or electronic transmission. None of the directors, officers or employees will be directly compensated for such services. Chesapeake has retained Georgeson Inc. and Florida Public Utilities has retained MaKenzie Partners, Inc. to assist in the distribution and solicitation of proxies.

For these services, Chesapeake and Florida Public Utilities expect to pay fees of $19,000 and $75,000, respectively, plus reasonable expenses.

The extent to which these proxy soliciting efforts will be necessary depends entirely upon how promptly proxies are submitted. You should submit your proxy without delay by mail or by telephone or over the Internet. The companies also reimburse brokers and other nominees for their expenses in sending these materials to you and obtaining your voting instructions if your shares are held in "street name."

Do not send in any stock certificates with your proxy cards. The exchange agent will mail transmittal forms with instructions for the surrender of stock certificates for Florida Public Utilities common stock to former Florida Public Utilities common shareholders as soon as practicable after the completion of the merger. Chesapeake shareholders do not need to exchange their stock certificates.

DESCRIPTION OF CHESAPEAKE CAPITAL STOCK

The following summary of the capital stock of Chesapeake is subject in all respects to the applicable provisions of the DGCL, and the restated certificate of incorporation (referred to as the certificate of incorporation) and the amended and restated bylaws (referred to as the bylaws) of Chesapeake as in effect on the date of this joint proxy statement/prospectus and which will be in effect at the effective time of the merger. Copies of the certificate of incorporation and bylaws of Chesapeake will be sent to shareholders of Chesapeake and Florida Public Utilities upon request. See "Where You Can Find More Information," on page 127; see also "Comparison of Shareholder Rights" beginning on page 105.

Authorized and Outstanding Capital Stock

Chesapeake's authorized capital stock consists of 12,000,000 shares of common stock, par value $0.4867 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share, of which 200,000 shares have been designated as Series A Participating Cumulative Preferred Stock, par value $0.01 per share. As of August 24, 2009, there were 6,883,593 shares of common stock and no shares of preferred stock issued and outstanding, and no shares of common stock were held in Chesapeake's treasury.

Common Stock

Voting Rights. Except as otherwise required by law and subject to the rights of the holders of any class or series of preferred stock, with respect to all matters upon which Chesapeake shareholders are entitled to vote, the holders of Chesapeake common stock vote together as a class, and every holder of Chesapeake common stock is entitled to cast one non-cumulative vote in person or by proxy for each share of common stock standing in such holder's name on the books of Chesapeake.

Dividend Rights. Holders of Chesapeake common stock are entitled to receive dividends or other distributions as declared by the Chesapeake board of directors at its discretion. Chesapeake's board of directors may create a class or series of preferred stock with dividends the rate of which is calculated by reference to, and payment of which is concurrent with, dividends on shares of common stock.

Conversion; Redemption. Holders of Chesapeake common stock are not entitled to any conversion rights and such shares are not subject to any redemption provisions.

Preemptive Rights. Holders of Chesapeake common stock are not entitled to any preemptive rights to subscribe for or otherwise acquire any unissued or treasury shares or other securities of Chesapeake nor are shares of Chesapeake common stock subject to any capital calls or assessments by Chesapeake.

Preferred Stock

Chesapeake's board of directors has the full authority permitted by law, at any time and from time to time, to divide the authorized and unissued shares of preferred stock into one or more classes or series and, with respect to each such class or series, to determine by resolution or resolutions the number of shares constituting such class or series and the designation of such class or series, the voting powers, if any, of the

shares of such class or series, and the preferences and relative, participating, optional or other special rights, if any, and any qualifications, limitations or restrictions thereof, of the shares of any such class or series of preferred stock to the full extent now or as may in the future be permitted by the law of Delaware. The powers, preferences and relative, participating, optional and other special rights of each class or series of preferred stock and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other classes or series at any time outstanding.

The Chesapeake board of directors has designated 200,000 authorized shares of preferred stock as "Series A Participating Cumulative Preferred Stock," par value $0.01 per share, of which no shares are outstanding.

Anti-Takeover Considerations

The DGCL and the Chesapeake certificate of incorporation and bylaws contain a number of provisions that may have the effect of discouraging transactions that involve an actual or threatened change in control of Chesapeake. For a description of the provisions, see the Chesapeake information under "Comparison of Shareholder Rights — Shareholder Rights Plan," "— Number of Directors; Classification of Board of Directors," "— Removal of Directors," "— Voting Rights in an Extraordinary Transaction," — Business Combination and Control Share Acquisition Statutes," and "— Amendments to Governing Documents" beginning on page 106.

Transfer Agent and Registrar

Computershare Trust Company, N.A. is the transfer agent and registrar for Chesapeake common stock.

COMPARISON OF SHAREHOLDER RIGHTS

Upon completion of the merger, Florida Public Utilities common shareholders will receive Chesapeake common stock in exchange for their shares of Florida Public Utilities common stock.

- The rights of Chesapeake shareholders are and will be governed by the DGCL, Chesapeake's certificate of incorporation and its bylaws.
- The rights of Florida Public Utilities shareholders are governed by the FBCA, Florida Public Utilities' restated articles of incorporation (referred to as the articles of incorporation) and its restated by-laws (referred to as the bylaws).

The following is a summary comparison of the respective material rights of holders of Chesapeake common stock and holders of Florida Public Utilities common stock. This summary is qualified in its entirety by reference to the DGCL, the FBCA, the certificate of incorporation and bylaws of Chesapeake, and the articles of incorporation and bylaws of Florida Public Utilities. For a more complete understanding of the rights of Chesapeake and Florida Public Utilities shareholders, including the differences between being a shareholder of Chesapeake and Florida Public Utilities, you should carefully read this entire joint proxy statement/prospectus and the relevant provisions of the DGCL and the FBCA, the certificate of incorporation and bylaws of Chesapeake, and the articles of incorporation and bylaws of Florida Public Utilities, which are incorporated by reference into this joint proxy statement/prospectus. Copies of the certificate of incorporation and bylaws of Chesapeake and the articles of incorporation and bylaws of Florida Public Utilities are available, without charge, to any person, including any beneficial owner to whom this joint proxy statement/prospectus is delivered, by following the instructions listed under "Where You Can Find More Information" on page 127.

Authorized Capital Stock

Chesapeake

The Chesapeake certificate of incorporation authorizes it to issue up to 12,000,000 shares of common stock, par value $0.4867 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share,

200,000 shares of which have been designated as Series A Participating Cumulative Preferred Stock, par value $0.01 per share.

Florida Public Utilities

The Florida Public Utilities articles of incorporation authorize it to issue up to 10,000,000 shares of common stock, par value $1.50 per share; 11,000 shares of Cumulative Preferred Stock, par value $100 per share, 6,000 shares of which have been designated 4¾% Series A Cumulative Preferred Stock and 5,000 shares of which have been designated as 4¾% Series B Cumulative Preferred Stock; and 32,500 shares of $1.12 Convertible Preference Stock, Cumulative, par value $20 per share.

Shareholder Rights Plan

Chesapeake

The DGCL does not include a statutory provision expressly validating shareholder rights plans; however, such plans have generally been upheld by decisions of courts applying Delaware law. Chesapeake has in place a shareholder rights plan, referred to in this paragraph as the Plan, that is designed to protect the value of the investment made by its shareholders. Under the Plan, Chesapeake shareholders have the right to purchase from Chesapeake one-fiftieth of a share of Chesapeake Series A Participating Cumulative Preferred Stock, par value $0.01 per share, for each share of Chesapeake common stock, par value $0.4867, owned by the shareholders (referred to in this paragraph as the Right). The Rights are not exercisable until the Distribution Date (as defined in the Plan). Each Right may be exercised at a purchase price of $105 per share, subject to adjustment as provided in the Plan. The issuance of Rights has no dilutive effect, does not affect reported earnings per share, is not taxable to the shareholder, and does not change the way in which Chesapeake's shares are currently traded.

Florida Public Utilities

Florida Public Utilities does not have a shareholder rights plan.

Number of Directors; Classification of Board of Directors

Chesapeake

The DGCL provides that a corporation's board of directors must consist of one or more individuals, with the number fixed by, or in the manner provided in, the bylaws, unless the certificate of incorporation fixes the number, in which case a change in the number of directors shall be made only by amendment of the certificate. The DGCL further provides that directors need not be shareholders of the corporation unless the corporation's certificate of incorporation or bylaws so provide. The certificate of incorporation and bylaws may also prescribe other qualifications for directors.

The Chesapeake certificate of incorporation provides that the number of directors will not be less than 5 nor more than 15, as may be fixed from time to time by the board. Chesapeake currently has 10 directors. After completion of the merger, Chesapeake's board of directors will consist of 12 directors, of whom 10 will be individuals who were serving as directors of Chesapeake prior to the consummation of the merger and 2 will be designated by Chesapeake and will be individuals who were serving as directors of Florida Public Utilities prior to the consummation of the merger, Chesapeake's bylaws require directors to be shareholders of Chesapeake.

The DGCL permits, but does not require, a classified board of directors, pursuant to which the directors can be divided into two or three classes with staggered terms of office, with only one class of directors standing for election each year.

Pursuant to the Chesapeake certificate of incorporation, the board of directors of Chesapeake is classified, with the board divided into three classes, Class I, Class II and Class III. Each director serves from the time of election and qualification until the third annual meeting following election and until a successor has been

elected and qualified or until his or her earlier resignation, disqualification, disablement or removal from office. As a result, approximately one-third of the board positions are up for election each year. The Chesapeake certificate of incorporation provides that the number of directors in each class will be equal to the whole number contained in the quotient arrived at by dividing the number of directors fixed by the Chesapeake board by three and if a fraction is also contained in such quotient and if such fraction is one-third, the extra director will be a member of Class III, and if the fraction is two-thirds, one of the directors will be a member of Class III and the other will be a member of Class II.

Florida Public Utilities

The FBCA provides that a corporation's board of directors must consist of one or more individuals, with the number specified in or fixed in accordance with the articles of incorporation or bylaws. The FBCA further provides that the number of directors may be increased or decreased from time to time by amendment to, or in the manner provided in, the articles of incorporation or the bylaws.

The Florida Public Utilities articles of incorporation provide that, except as may be otherwise fixed or pursuant to the rights of the holders of any class or series of preferred or preference stock, the number of the directors of Florida Public Utilities will be not less than 3 nor more than 9, as may be determined from time to time by the board. Florida Public Utilities currently has 6 directors. The directors need not be shareholders of Florida Public Utilities.

The FBCA permits, but does not require, a classified board of directors, pursuant to which the directors can be divided into one, two or three classes with staggered terms of office, with only one class of directors standing for election each year. In the case of any such election, the FBCA requires that each class be as nearly equal as possible and that any increase or decrease in the number of directors be apportioned among the classes as to make all classes as nearly equal in number as possible.

Pursuant to the Florida Public Utilities articles of incorporation, the board of directors of Florida Public Utilities is classified into three classes with each director serving from the time of election and qualification until the third annual meeting following election and until a successor has been elected and qualified. The articles of incorporation of Florida Public Utilities provide an exception to classification with respect to those directors who may be elected by holders of preferred or preference stock.

Vacancies on the Board

Chesapeake

The DGCL provides that, unless otherwise provided in the certificate of incorporation or bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director.

The Chesapeake bylaws provide that vacancies on the board resulting from death, resignation, retirement, disqualification, removal or other cause will be filled by a majority of the remaining directors, even though less than a quorum, and such person shall hold office until the next election of the class for which he or she is chosen and until a successor is elected and qualified. The charter of the Chesapeake corporate governance committee provides that any person chosen to fill a vacancy on the board will hold office until the next annual meeting of shareholders.

Florida Public Utilities

The FBCA provides that, unless otherwise provided in the articles of incorporation, vacancies, including vacancies resulting from an increase in the number of directors, be filled by a majority of the remaining directors, although less than a quorum, or by the shareholders.

The Florida Public Utilities bylaws provide that vacancies on the board resulting from death, resignation, removal, disqualification or other cause, or an increase in the number of directors, will be filled by the

affirmative vote of a majority of the remaining directors, even though less than a quorum, or by the shareholders of Florida Public Utilities at a meeting called for that purposes unless such vacancy has been filled by the directors. Any director elected to fill a vacancy on the board will hold office until the next annual meeting of shareholders and until their successors are duly elected and qualified.

Removal of Directors

Chesapeake

The DGCL provides that, in the absence of cumulative voting, any director or the entire board of directors may be removed, with or without cause, by the holders of a majority of the shares then entitled to vote at an election of directors, except that in the case of a corporation that has a classified board, directors may be removed from office only for cause, unless the certificate of incorporation provides otherwise.

Chesapeake has a classified board and its certificate of incorporation provides that no director may be removed by the shareholders unless the director to be removed (i) is disabled or incapacitated to such an extent that such director is unable to perform his or her duties as a director, (ii) has been convicted of a felony and such conviction is no longer subject to appeal or (iii) has been adjudged to be liable for misconduct in the performance of his or her duties to Chesapeake and such adjudication is no longer subject to direct appeal.

Florida Public Utilities

The FBCA provides that shareholders may remove a director with or without cause, at a meeting called for that purpose, unless the articles of incorporation provide that any director or the entire board of directors may be removed only for cause. A director may be removed only if the number of votes cast to remove the director exceeds the number of votes cast not to remove him or her.

The Florida Public Utilities articles of incorporation provide that shareholders may, by a vote of at least 70% of the issued and outstanding capital stock entitled to vote, remove any director but only for cause. The Florida Public Utilities articles of incorporation further provide that, except as may otherwise be provided by law, cause for removal shall be construed to exist only if the director whose removal is proposed has been convicted of a felony by a court of competent jurisdiction and such conviction is no longer subject to direct appeal or has been adjudged by a court of competent jurisdiction to be liable for negligence or misconduct in the performance of his or her duty to Florida Public Utilities in a matter of substantial importance to Florida Public Utilities, and such adjudication is no longer subject to direct appeal.

Quorum for Meetings of Shareholders

Chesapeake

The DGCL generally provides that a quorum for a shareholders meeting consists of a majority of shares entitled to vote present in person or represented by proxy at such meeting, unless the certificate of incorporation or bylaws of the corporation provide otherwise.

The Chesapeake bylaws provide that, except as otherwise provided by law or the certificate of incorporation or elsewhere in the bylaws, at any meeting of shareholders, the holders of a majority of the issued and outstanding stock entitled to vote thereat, either present in person or represented by proxy, will constitute a quorum for the transaction of any business. In the absence of a quorum, the presiding officer of the meeting or the majority of the shareholders entitled to vote thereat, present in person or represented by proxy, may adjourn the meeting until a quorum is obtained. Even if a quorum exists, the presiding officer of the meeting, for good cause, or the majority of the shareholders entitled to vote thereat, present in person or represented by proxy, may adjourn the meeting. At the adjourned meeting Chesapeake may transact any business which might have been transacted at the original meeting.

Florida Public Utilities

The FBCA generally provides that a quorum for a shareholders meeting consists of a majority of shares entitled to vote present in person or represented by proxy at such meeting, unless the articles of incorporation or the FBCA provides otherwise.

The Florida Public Utilities bylaws provide that, except as otherwise provided in the articles of incorporation, at any meeting of shareholders, the holders of a majority of the issued and outstanding stock entitled to vote thereat, represented in person or by proxy, constitutes a quorum. The holders of a majority of the shares represented, and who would be entitled to vote at a meeting if a quorum were present, where a quorum is not present, may adjourn a meeting.

Voting Rights and Required Vote Generally

Chesapeake

The DGCL provides that unless otherwise provided in a corporation's certificate of incorporation, each shareholder is entitled to one vote for each share of capital stock held by such shareholder. The DGCL further provides that unless a corporation's certificate of incorporation or bylaws otherwise provides, directors of a corporation are elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote in the election at a shareholders meeting at which a quorum is present (i.e., the nominees for director receiving the highest number of affirmative votes, up to the number of directors to be elected, are elected). Except as otherwise required by the DGCL or by the certificate of incorporation or bylaws, under the DGCL, all matters brought before a shareholders meeting require the affirmative vote of the majority of the shares present in person or represented by proxy and entitled to vote at a shareholders meeting at which a quorum is present.

Pursuant to the Chesapeake bylaws, in all matters other than the election of directors, the vote of a majority of the stock present in person or represented by proxy and entitled to vote on the matter shall decide any question brought before a meeting unless the question is one upon which by express provision of the certificate of incorporation or of the bylaws, or by law, a different vote is required. The Chesapeake bylaws further provide that directors shall be elected, by ballot, by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote at the election of directors.

Florida Public Utilities

The FBCA provides that unless the articles of incorporation or the FBCA provides otherwise, each outstanding share, regardless of class, is entitled to one vote on each matter submitted to a vote at a meeting of shareholders. The FBCA further provides that unless otherwise provided in the articles of incorporation, directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. Pursuant to the FBCA, if a quorum exists, action on a matter (other than the election of directors) by the shareholders is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the articles of incorporation or the FBCA requires a greater number of affirmative votes.

The Florida Public Utilities bylaws provide that except as otherwise provided by the FBCA or the articles of incorporation, when a quorum is present at any meeting a majority of the stock represented at the meeting shall decide any question brought before such meeting. The Florida Public Utilities articles of incorporation provide that except as otherwise provided in the articles of incorporation, or mandatorily provided by the FBCA, a plurality vote of a quorum of any class of stock entitled to vote as a class at any meeting shall govern.

Voting Rights in an Extraordinary Transaction

Chesapeake

The DGCL generally requires that any merger, consolidation or sale of substantially all the assets of a corporation be approved by a vote of a majority of all outstanding shares entitled to vote thereon. Although a

Delaware corporation's certificate of incorporation may provide for a greater vote, the Chesapeake certificate of incorporation does not require a greater vote except that the Chesapeake certificate of incorporation requires the affirmative vote of the holders of at least 75% of the total voting power of all outstanding shares for the approval of a merger or consolidation with, or a sale of substantially all of Chesapeake's assets or business to, any person that owns or controls 5% or more of the outstanding common shares of Chesapeake if such transaction (i) was not approved by resolution of the Chesapeake board prior to the acquisition of ownership or control of 5% of the outstanding common shares of Chesapeake by such person or (ii) such transaction is between Chesapeake and another corporation 50% or more of the stock of which is owned by Chesapeake.

Florida Public Utilities

The FBCA provides that unless the articles of incorporation or board of directors requires a greater vote, mergers or share exchanges must be approved by a vote of the holders of a majority of all outstanding shares of each class entitled to vote on the transaction. The FBCA further provides that unless the articles of incorporation or board of directors requires a greater vote, sales of substantially all the assets of a corporation must be approved by a vote of the holders of a majority of all outstanding shares without reference to class.

Pursuant to the Florida Public Utilities articles of incorporation, in addition to any affirmative vote required by law or the articles of incorporation and except as otherwise expressly provided in the articles of incorporation:

- any merger or consolidation of Florida Public Utilities with (a) any interested stockholder or (b) any other corporation (whether or not itself an interested stockholder) which is, or after such merger or consolidation would be, an affiliate of an interested stockholder;
- any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) to or with any interested stockholder or any affiliate of any interested stockholder of assets of Florida Public Utilities having an aggregate fair market value of $1,000,000 or more;
- the issuance or transfer by Florida Public Utilities (in one transaction or a series of transactions) of any securities of Florida Public Utilities to any interested stockholder or any affiliate of any interested stockholder in exchange for cash, securities or other property (or a combination thereof) having an aggregate fair market value of $1,000,000 or more;
- the adoption of any plan or proposal for the liquidation or dissolution of Florida Public Utilities proposed by or on behalf of any interested stockholder or any affiliate of any interested stockholder; or
- any reclassification of securities (including any reverse stock split), or recapitalization of Florida Public Utilities or merger or consolidation of Florida Public Utilities with its subsidiary or any other transaction (whether or not with or into or otherwise involving an interested stockholder) which has the effect of increasing the proportionate share of the outstanding shares of any class of equity or convertible securities of Florida Public Utilities which is directly or indirectly owned by any interested stockholder who was not an interested stockholder on February 15, 1986 or any affiliate of any such interested stockholder;

requires the affirmative vote of the holders of at least 70% of the voting power of the then outstanding shares of voting stock, voting together as a single class. Such affirmative vote is required notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified, by law or in any agreement with any national securities exchange or otherwise.

The Florida Public Utilities articles of incorporation further provide that the 70% voting requirement specified above shall not be applicable to any such transaction specified above, and such transaction shall require only such affirmative vote as is required by law, any other provisions of the articles of incorporation or any agreement with any national securities exchange, if, in the case of a transaction specified above that does not involve any cash or other consideration being received by Florida Public Utilities shareholders, solely in their respective capacities as Florida Public Utilities shareholders, the transaction has been approved by a

majority of the continuing directors or, in the case of any other transaction specified above, the transaction has been approved by a majority of the continuing directors and the following conditions are met:

- The aggregate amount of the cash and the fair market value, as of the date of the consummation of the transaction, of the consideration other than cash to be received per share by holders of common stock in such transaction shall be at least equal to the highest of the following: (a) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the interested stockholder for any shares of common stock acquired by it (1) within the two-year period immediately prior to the date of the first public announcement of the proposal of the transaction, or (2) in the transaction in which it became an interested stockholder, whichever is higher; or (b) the fair market value per share of common stock on the date of the first public announcement of the proposal of the transaction or on the date on which the interested stockholder became an interested stockholder, whichever is higher.

- The aggregate amount of the cash and the fair market value, as of the date of the consummation of the transaction, of the consideration other than cash to be received per share by holders of shares of any other outstanding class of voting stock or any outstanding series thereof if shares of such class are issuable in series shall be at least equal to the highest of the following: (a) (if applicable) the highest per share price (including any brokerage commissions, transfer taxes and soliciting dealers' fees) paid by the interested stockholder for any shares of such class or series of voting stock acquired by it (1) within the two-year period immediately prior to the date of the first public announcement of the proposal of the transaction or (2) in the transaction in which it became an interested stockholder, whichever is higher; (b) the fair market value per share of such class or series of voting stock on the date of the first public announcement of the proposal of the transaction or on the date on which the interested stockholder became an interested stockholder, whichever is higher; or (c) (if applicable) the highest preferential amount per share to which the holders of shares of such class or series of voting stock are entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of Florida Public Utilities.

- The consideration to be received by holders of a particular class of outstanding voting stock or the holders of a particular series of a class thereof if shares of such class are issuable in series shall be in cash or in the same form as the interested stockholder has previously paid for shares of such class or series of voting stock. If the interested stockholder has previously paid for shares of such class or series of voting stock with varying forms of consideration, the form of consideration for such class or series of voting stock shall be either cash or the form used to acquire the largest number of shares of such class or series of voting stock previously acquired by the interested stockholder. The price determined above shall be subject to appropriate adjustment in the event of any stock dividend, stock split, combination of shares or similar event.

- After such interested stockholder has become an interested stockholder and prior to the consummation of such transaction, except as approved by a majority of the continuing directors: (a) there shall have been no failure to declare and pay at the regular date therefor any full quarterly dividends (whether or not cumulative) on any outstanding preferred or preference stock; (b) there shall have been (1) no reduction in the annual rate of dividends paid on the common stock (except as necessary to reflect any subdivision of the common stock), and (2) an increase in such annual rate of dividends as necessary to reflect any reclassification (including any reverse stock split), recapitalization, reorganization or any similar transaction which has the effect of reducing the number of outstanding shares of common stock; and (c) such interested stockholder shall have not become the beneficial owner of any additional shares of voting stock except as part of the transaction which results in such interested stockholder becoming an interested stockholder.

- After such interested stockholder has become an interested stockholder except as approved by a majority of the continuing directors, such interested stockholder shall not have received the benefit, directly or indirectly (except proportionately as a stockholder), of any loans, advances, guarantees,

pledges or other financial assistance or any tax credits or other tax advantages provided by Florida Public Utilities, whether in anticipation of or in connection with such transaction or otherwise.

- A proxy or information statement describing the proposed transaction and complying with the requirements of the Exchange Act shall be mailed to shareholders of Florida Public Utilities at least 30 days prior to the consummation of such transaction (whether or not such proxy or information statement is required to be mailed pursuant to the Exchange Act or subsequent provisions).

The following terms used above in this section have the following meanings:

- *"Interested stockholder"* means any person (other than Florida Public Utilities or any subsidiary) who or which: (i) is the beneficial owner, directly or indirectly, of more than 10% of the voting power of the outstanding voting stock; (ii) is an affiliate of Florida Public Utilities and at any time within the two-year period immediately prior to the date in question was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding voting stock; or (iii) is an assignee of or has otherwise succeeded to any shares of voting stock which were at any time within the two-year period immediately prior to the date in question beneficially owned by an interested stockholder, if such assignment or succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act.
- *"Continuing director"* means any member of the Florida Public Utilities board of directors who is not an affiliate or associate or representative of the interested stockholder and who was a member of the board prior to the time that the interested stockholder became an interested stockholder or on February 15, 1986, and any successor of a continuing director who is not an affiliate or associate or representative of the interested stockholder and is elected or recommended to be elected a director by a majority of continuing directors then on the board.
- *"Fair market value"* means: (i) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations Systems or any system then in use, or, if such stock is listed on a national securities exchange, the highest closing sale price on such exchange during the 30-day period preceding the date in question, or if no such quotations are available, the fair market value on the date in question on a share of such stock as determined by the Florida Public Utilities board in good faith; and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined by the Florida Public Utilities board in good faith.
- In the event of any transaction specified above which Florida Public Utilities survives, the phrase "consideration, other than cash to be received" as used above includes the shares of common stock and/or the shares of any class or series of outstanding voting stock, retained by the holders of such shares.

Sequestration of Shares

The DGCL provides that the shares of any person in a Delaware corporation may be attached or "sequestered" for debts or other demands. This provision could be used to assert jurisdiction against a non-resident holder of Chesapeake's shares, thereby compelling the non-resident holder to appear in an action brought in a Delaware court. The FBCA has no comparable provision.

Business Combination and Control Share Acquisition Statutes

Chesapeake

Section 203 of the DGCL is Delaware's business combination statute. Section 203 is designed to protect publicly traded Delaware corporations, such as Chesapeake, from hostile takeovers, by prohibiting a Delaware corporation from engaging in a "business combination" with a person beneficially owning 15% or more of the corporation's voting stock for three years following the time that person becomes a 15% beneficial owner, with certain exceptions. A corporation may elect not to be governed by Section 203 of the DGCL.

Chesapeake has not opted out of the protections of Section 203 of the DGCL; however, these provisions do not apply to the merger with Florida Public Utilities.

Florida Public Utilities

The FBCA provides that the voting rights to be accorded control shares, as defined below, of a Florida corporation that has (i) 100 or more shareholders, (ii) its principal place of business, its principal office, or substantial assets in Florida, and (iii) either more than 10% of its shareholders residing in Florida, more than 10% of its shares owned by Florida residents, or 1,000 shareholders residing in Florida, must be approved by a majority of each class of voting securities of the corporation, excluding those shares held by interested persons, before the control shares will be granted any voting rights. "Control shares" are defined in the FBCA to be shares acquired by a person, either directly or indirectly, that when added to all other shares of the issuing corporation owned by that person, would entitle that person to exercise, either directly or indirectly, voting power within any of the following ranges: (i) 20% or more but less than 33% of all voting power of the corporation's voting securities; (ii) 33% or more but less than a majority of all voting power of the corporation's voting securities; or (iii) a majority or more of all of the voting power of the corporation's voting securities. These provisions do not apply to shares acquired under, among other things, an agreement or plan of merger or share exchange effected in compliance with the relevant provisions of the FBCA and to which the corporation is a party, or an acquisition of shares previously approved by the board of directors of the corporation. A corporation may "opt out" of these provisions by electing to do so in its articles of incorporation or bylaws.

Florida Public Utilities has not opted out of these provisions; however, these provisions do not apply to the merger with Chesapeake.

Special Meetings of Shareholders

Chesapeake

The DGCL provides that special meetings of the shareholders may be called by the board of directors or by such persons as may be authorized by the certificate of incorporation or by the bylaws. The DGCL does not require that shareholders be given the right to call special meetings.

The Chesapeake bylaws provide that special meetings, unless otherwise provided by law or by the certificate of incorporation, may be called by Chesapeake's president and shall be called by Chesapeake's president or secretary at the request in writing of a majority of its board, and not at the request of any other person. Such request must state the purpose or purposes of the proposed meeting.

Florida Public Utilities

The FBCA provides that special meetings may be called by the board of directors, by any person or persons authorized to do so by the articles of incorporation or bylaws and by holders of not less than 10% of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting, unless a greater percentage not to exceed 50% is required by the articles of incorporation.

The Florida Public Utilities articles of incorporation and bylaws provide that except as otherwise provided in the articles of incorporation, special meetings may be called by Florida Public Utilities' chairman of the board, president or any vice president, or upon the written request of a majority of its entire board or whenever the holder or holders of not less than a majority of the capital stock issued and outstanding and entitled to vote thereat shall make application to Florida Public Utilities' secretary or assistant secretary. Such request must state the purpose or purposes of the proposed meeting.

Amendments to Governing Documents

Chesapeake

The DGCL provides that an amendment to a corporation's certificate of incorporation requires that the board of directors adopt a resolution setting forth the proposed amendment and that the shareholders must approve the amendment by a majority of outstanding shares entitled to vote (and a majority of the outstanding shares of each class entitled to vote, if any).

The Chesapeake certificate of incorporation provides that the provisions of the certificate of incorporation summarized, in part, above under "— Number of Directors; Classification of Board of Directors," "— Removal of Directors," "— Voting Rights in an Extraordinary Transaction" and "— Shareholder Action by Written Consent" and the provision of the certificate of incorporation summarized in this paragraph may not be repealed or amended unless such repeal or amendment is approved by the affirmative vote of the holders of at least 75% of the total voting power of all outstanding shares of Chesapeake. The Chesapeake certificate of incorporation further provides that except as provided in the preceding sentence, any provision of the certificate of incorporation may be amended, altered, changed or repealed in the manner prescribed by the DGCL.

The DGCL provides that holders of a majority of the voting power of a corporation, and, when provided for in the certificate of incorporation, the board of directors of the corporation, have the power to adopt, amend and repeal the bylaws of a corporation.

The Chesapeake certificate of incorporation provides the Chesapeake board with the authority to make, alter, amend and rescind the bylaws subject to the right of the Chesapeake shareholders to alter, amend or rescind the same. The Chesapeake bylaws provide that the bylaws may be altered or repealed at any regular meeting of the shareholders or at any special meeting of the shareholders, provided notice of the proposed alteration or repeal is contained in the notice of such special meeting, by the affirmative vote of the holders of 75% or more of outstanding shares of capital stock entitled to vote at such meeting and present or represented thereat. The Chesapeake bylaws further provide that the Chesapeake board may alter or repeal the bylaws by the affirmative vote of a majority of the entire board at any regular meeting of the board or at any special meeting of the board if notice of the proposed alteration or repeal is contained in the notice of such special meeting.

Florida Public Utilities

The FBCA provides that a corporation's board of directors may adopt certain minor amendments to a corporation's articles of incorporation without a shareholder vote. Other proposed amendments to the articles must be submitted to a vote of the shareholders by the board of directors. Unless a greater vote is required by the FBCA, the articles of incorporation, a shareholder adopted bylaw or an action of the board in proposing the amendment, an amendment to the articles of incorporation requiring shareholder action must be approved by a majority of the votes entitled to be cast on the amendment by any voting group with respect to which the amendment would create dissenters' rights, and for shares entitled to vote as a separate voting group, a greater number of those votes cast favoring the action exceed the votes cast opposing the action provided that a quorum of the voting group is present. The FBCA permits the articles of incorporation or the board of directors to require a greater percentage of affirmative votes for any amendment.

The Florida Public Utilities articles of incorporation provide that except as otherwise provided in the articles of incorporation, Florida Public Utilities may increase or decrease its authorized capital stock or reclassify the same and may amend, alter, change or repeal any provision of the articles of incorporation in the manner prescribed by law. The Florida Public Utilities articles of incorporation further provide that notwithstanding the immediately preceding sentence, the provisions of the articles of incorporation summarized in this paragraph, the provisions of the articles of incorporation summarized, in part, above under "— Voting Rights in an Extraordinary Transaction" and "— Special Meetings of Shareholders" and the provisions of the articles of incorporation relating to shareholder action by written consent may not be altered, amended or repealed in any respect unless such alteration, amendment or repeal is approved by the affirmative vote of the

holders of at least 70% of the then outstanding shares of voting stock of Florida Public Utilities, voting together as a single class; provided however, that such 70% vote is not required for any alteration, amendment or repeal approved by two-thirds of the entire Florida Public Utilities board of directors and all such directors are continuing directors as defined above under "— Voting Rights in an Extraordinary Transaction."

The FBCA provides that the directors may amend or repeal the corporation's bylaws unless (i) the corporation's articles of incorporation or the FBCA reserve the power to amend the bylaws generally or a particular bylaw provision exclusively to the shareholders, or (ii) the shareholders, in amending or repealing the bylaws generally or a particular bylaw provision, provide expressly that the board may not amend or repeal the bylaws or that bylaw provision. The FBCA further provides that a corporation's shareholders may amend or repeal the corporation's bylaws even though the bylaws may also be amended or repealed by its board of directors.

The Florida Public Utilities articles of incorporation vest the power to adopt, alter, amend or repeal the bylaws in the Florida Public Utilities board of directors. The Florida Public Utilities articles of incorporation further provide that bylaws adopted by the Florida Public Utilities board of directors may be repealed or changed, and new bylaws may be adopted by the shareholders only if such repeal, change or adoption is approved by the affirmative vote of the holders of at least 70% of the then voting stock of Florida Public Utilities, voting together as a single class. The Florida Public Utilities bylaws provide that the bylaws may be amended, added to, altered or repealed in full or in part at any annual or special meeting of Florida Public Utilities shareholders by vote in either case of at least 70% of the outstanding capital stock entitled to vote, provided that notice of the proposed amendment, addition, alteration or repeal is included in the notice of the meeting, or by the affirmative vote of a majority of the Florida Public Utilities board of directors present at any regular or special meeting of the board, provided notice of the proposed amendment, addition, alteration or repeal is included in the notice of the meeting.

Indemnification of Directors and Officers

Chesapeake

The DGCL provides that a corporation may indemnify its officers, directors, employees and agents against liabilities and expenses incurred in proceedings if the person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action, had no reasonable cause to believe that the person's conduct was unlawful. The DGCL further provides that no indemnification is available in respect of a claim as to which the person has been adjudged to be liable to the corporation, unless and only to the extent that a court determines that in view of all the circumstances, such person is fairly and reasonably entitled to indemnity for such expenses that the court deems proper. Under the DGCL, a Delaware corporation must indemnify its present or former directors and officers against expenses (including attorneys' fees) actually and reasonably incurred to the extent that the officer or director has been successful on the merits or otherwise in defense of any action, suit or proceeding brought against him or her by reason of the fact that he or she is or was a director or officer of the corporation.

The Chesapeake bylaws provide that each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact such person is or was a director or officer of Chesapeake or is or was serving at the request of Chesapeake as a director or officer of another corporation or of a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by Chesapeake to the fullest extent permitted by the DGCL against all expense, liability and loss (including attorneys' fees, judgments, fines or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith, and such indemnification shall continue as to such person who has ceased to be a director or officer and shall inure to the benefit of the person's heirs, executors and administrators. The Chesapeake bylaws further provide that the right to indemnification described in the immediately preceding sentence includes the right to be paid by Chesapeake the expenses incurred in defending any action, suit, or proceeding in advance of its final disposition, subject to

the receipt by Chesapeake of an undertaking by or on behalf of such person to repay all amounts so advanced if it shall ultimately be determined that such person is not entitled to be indemnified.

Florida Public Utilities

The FBCA provides that a corporation has the power to indemnify any person who was or is a party to any proceeding (other than an action by, or in the right of, the corporation), by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability incurred in connection with such proceeding, including any appeal thereof, if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The FBCA further provides a corporation has the power to indemnify any person, who was or is a party to any proceeding by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee, or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against expenses and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of such proceeding, including any appeal thereof. Such indemnification is authorized if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the corporation, except that no indemnification with regard to a proceeding by or in the right of the corporation is to be made in respect of any claim, issue, or matter as to which such person shall have been adjudged to be liable unless, and only to the extent that, the court in which such proceeding was brought, or any other court of competent jurisdiction, shall determine upon application that, despite the adjudication of liability but in view of all circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such court shall deem proper. Under the FBCA, to the extent that a director, officer, employee, or agent of a corporation has been successful on the merits or otherwise in defense of any proceeding referred to above in this paragraph, or in defense of any claim, issue, or matter therein, he or she shall be indemnified against expenses actually and reasonably incurred by him or her in connection therewith.

The Florida Public Utilities bylaws provide that Florida Public Utilities shall, to the extent legally permissible, indemnify each of its directors and officers (including persons who serve at its request as directors, officers, or trustees of another organization in which it has any interest, as a shareholder, creditor or otherwise) against all liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees, reasonably incurred by him in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, in which he may be involved or with which he may be threatened, while in office or thereafter, by reason of his being or having been such a director or officer, except with respect to any matter as to which he shall have been adjudicated in such action, suit or proceeding not to have acted in good faith in the reasonable belief that his action was in the best interests of the Corporation; provided, however, that as to any matter disposed of by a compromise payment by such director or officer, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless such compromise shall be approved as in the best interests of Florida Public Utilities, after notice that it involves such indemnification, (a) by a disinterested majority of the directors then in office; or (b) by a majority of the disinterested directors then in office, provided that there has been obtained an opinion in writing of independent legal counsel to the effect that such director or officer appears to have acted in good faith in the reasonable belief that his action was in the best interests of the Corporation; or (c) by the holders of a majority of the outstanding stock at the time entitled to vote for directors, voting as a single class, exclusive of any stock owned by any interested director or officer. The Florida Public Utilities bylaws further provide that expenses incurred with respect to any such action, suit or proceeding may be advanced by Florida Public Utilities prior to the final disposition of such action, suit or proceeding, upon receipt of an undertaking by or on behalf of the recipient to repay such amount unless it is ultimately determined that he is entitled to indemnification.

Limitation on Personal Liability of Directors

Chesapeake

The DGCL provides that a corporation may include in its certificate of incorporation a provision eliminating the liability of a director to the corporation or its shareholders for monetary damages for a breach of the director's fiduciary duties, except liability for any breach of the director's duty of loyalty to the corporation's shareholders, for acts or omissions not in good faith or that involve intentional misconduct or knowing violation of law, under Section 174 of the DGCL (which deals generally with unlawful payments of dividends, stock repurchases and redemptions), and for any transaction from which the director derived an improper personal benefit.

The Chesapeake certificate of incorporation contains a provision eliminating the liability of directors of Chesapeake to the fullest extent permitted under the DGCL.

Florida Public Utilities

The FBCA generally provides that a director is not personally liable for monetary damages to the corporation or any other person for any statement, vote, decision or failure to act regarding corporate management or policy, unless the director breached or failed to perform his duties as a director and the director's breach of or failure to perform those duties constitutes: (i) a violation of the criminal law, unless the director had reasonable cause to believe his conduct was lawful or had no reasonable cause to believe his conduct was unlawful; (ii) a transaction from which the director derived an improper personal benefit, either directly or indirectly; (iii) an unlawful distribution; (iv) in a proceeding by or in the right of the corporation or in the right of a shareholder, conscious disregard for the best interest of the corporation, or willful misconduct; or (v) in a proceeding by or in the right of someone other than the corporation or a shareholder, recklessness or an act or omission which was committed in bad faith or with malicious purpose or in a manner exhibiting wanton and willful disregard of human rights, safety or property.

The provisions of the FBCA described above apply to Florida Public Utilities, and there are no additional limitation of liability of director provisions in either the Florida Public Utilities articles of incorporation or bylaws other than those provisions relating to indemnification of directors.

Dividends and Stock Repurchases

Chesapeake

The DGCL provides that, subject to any restrictions in a corporation's certificate of incorporation, dividends may be declared from the corporation's surplus, or, if there is no surplus, from its net profits for the fiscal year in which the dividend is declared and for the preceding fiscal year. Dividends may not be declared out of net profits, however, if the corporation's capital has been diminished to an amount less than the aggregate amount of all capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets is repaired. Furthermore, the DGCL generally provides that a corporation may redeem or repurchase its shares only if the redemption or repurchase would not impair the capital of the corporation.

Subject to the rights, if any, of the holders of any class or series of preferred stock or any class or series of stock having a preference over or the right to participate with the common stock with respect to the payment of dividends, Chesapeake's certificate of incorporation places no additional restrictions on the ability of its board of directors to declare dividends or redeem or repurchase shares of its capital stock. The Chesapeake bylaws provide that dividends may be declared by the Chesapeake board of directors at any regular or special meeting, pursuant to law, and that dividends may be paid in cash, in property, or in shares of Chesapeake capital stock, subject to the provisions of the Chesapeake certificate of incorporation. The Chesapeake bylaws further provide that before payment of any dividend, there may be set aside out of any funds of Chesapeake available for dividends such sum or sums as the Chesapeake board from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or

for repairing or maintaining any property of Chesapeake, or for such other purpose as the Chesapeake board shall think conducive to the interest of Chesapeake, and the Chesapeake board may modify or abolish any such reserve in the manner in which it was created.

Florida Public Utilities

The FBCA provides that, subject to any restrictions in the articles of incorporation, dividends may be paid to holders of a corporation's capital stock provided no distribution may be made if, after giving it effect, (i) the corporation would be unable to pay its debts as they become due in the usual course of business or (ii) the corporation's total assets would be less than the sum of its liabilities plus the amount that would be needed if the corporation were to be dissolved at the time of the distribution to satisfy preferential shareholder rights that are superior to those receiving the distribution. Furthermore, the FBCA generally provides that a corporation may acquire its own shares, and a corporation that has shares of any class or series which are registered on a national securities exchange may designate, either in the bylaws or in the resolutions of its board, that shares so acquired by the corporation shall constitute treasury shares.

The Florida Public Utilities articles of incorporation provide that out of any assets of Florida Public Utilities available for dividends remaining after full cumulative dividends upon the Florida Public Utilities preferred stock and preference stock then outstanding shall have been paid, or declared and a sum sufficient for the payment thereof set apart, for all past quarterly dividend periods, and after or concurrently with making payment of or provision for full dividends on the Florida Public Utilities preferred stock and preference stock then outstanding for the current quarterly dividend period, then, and not otherwise, dividends may be paid upon the Florida Public Utilities common stock to the exclusion of the Florida Public Utilities preferred stock and preference stock; provided, however, that so long as any shares of the Florida Public Utilities preferred stock shall be outstanding Florida Public Utilities is not permitted to declare or pay any dividends or make any other distribution to the holders of any shares of its capital stock of any class ranking junior to the Florida Public Utilities preferred stock (other than a dividend payable in capital stock ranking junior to the Florida Public Utilities preferred stock), or purchase or acquire or otherwise retire for a consideration (otherwise than from the proceeds of new financing through the issuance and sale of any shares of any class of stock of Florida Public Utilities ranking junior to the Florida Public Utilities preferred stock) any shares of its capital stock of any class ranking junior to the Florida Public Utilities preferred stock (a) if the aggregate amount so paid, distributed and/or applied would exceed the aggregate of the net income of Florida Public Utilities available for dividends on its capital stock ranking junior to the Florida Public Utilities preferred stock, or (b) if the sum of the amount of capital represented by such capital stock ranking junior to the Florida Public Utilities preferred stock and of the surplus accounts of Florida Public Utilities are at the time below, or will as a result of such dividend or other distribution or such purchase, acquisition or other retirement of stock be reduced more than $50,000 below, the aggregate amount payable upon involuntary dissolution to the holders of Florida Public Utilities preferred stock and of any class of stock ranking on a parity with or prior to the Florida Public Utilities preferred stock at the time issued and outstanding. The Florida Public Utilities articles of incorporation further provide that net income of Florida Public Utilities for the purpose of the preceding sentence means gross earnings of Florida Public Utilities less all proper deductions for operating expenses, taxes, interest charges and other appropriate items, including provision for maintenance and for retirement or depreciation determined in accordance with such system of accounts as may be prescribed by governmental authorities having jurisdiction in the premises or in absence thereof in accordance with sound accounting practice; provided, however, that in determining the net income of Florida Public Utilities for the purposes of this paragraph no deduction or adjustment is permitted to be made for or in respect of (i) expenses in connection with the redemption or retirement of any securities issued by Florida Public Utilities, including any amount paid in excess of the principal amount or par or stated value of securities redeemed or retired and, in the event that such redemption or retirement is effected with the proceeds of sale of other securities of Florida Public Utilities, interest or dividends on the securities redeemed or retired from the date on which the funds required for such redemption or retirement are deposited in trust for such purpose to the date of redemption or retirement, (ii) profits or losses from sales of public utility property or other capital assets, or taxes on or in respect of any such profits or (iii) amortization or elimination of utility plant adjustment accounts or other intangibles. The Florida Public Utilities articles of incorporation also provide that the Florida Public Utilities

board of directors has the authority from time to time to set apart out of any assets of Florida Public Utilities otherwise available for dividends a reserve or reserves as working capital or for any other proper purpose or purposes, and to reduce, abolish or add to any such reserve or reserves from time to time as the board may deem to be in the interests of Florida Public Utilities; and the board likewise has power to determine in its discretion what part of the assets of Florida Public Utilities available for dividends in excess of such reserve or reserves shall be declared as dividends and paid to the Florida Public Utilities shareholders.

Dissenters' or Appraisal Rights

Chesapeake

Under the DGCL, a shareholder of a Delaware corporation such as Chesapeake who has not voted in favor of, nor consented in writing to, a merger or consolidation in which the corporation is participating generally has the right to an appraisal of the fair value of the shareholder's shares of stock, subject to specified procedural requirements. The DGCL does not confer appraisal rights, however, if the corporation's stock is either (1) listed on a national securities exchange or (2) held of record by more than 2,000 holders. Even if a corporation's stock meets the foregoing requirements, however, the DGCL provides that appraisal rights generally will be permitted if shareholders of the corporation are required to accept for their stock in any merger, consolidation or similar transaction anything other than (1) shares of the corporation surviving or resulting from the transaction, or depository receipts representing shares of the surviving or resulting corporation, or those shares or depository receipts plus cash in lieu of fractional interests, (2) shares of any other corporation, or depository receipts representing shares of the other corporation, or those shares or depository receipts plus cash in lieu of fractional interests, which shares or depository receipts are listed on a national securities exchange or held of record by more than 2,000 holders, or (3) any combination of the foregoing.

Under the DGCL, appraisal rights are not available in the merger for Chesapeake shareholders.

Florida Public Utilities

The FBCA provides that appraisal rights are available in connection with, (a) the consummation of a conversion or plan of merger that requires a shareholder vote, (b) consummation of a share exchange under which the corporation's shares will be acquired that requires a shareholder vote, (c) a sale or exchange of all, or substantially all, of the assets of a corporation upon which shareholders are entitled to vote, (d) an amendment to the articles of incorporation if the shareholder is entitled to vote on the amendment and if the amendment may adversely affect the rights or preferences of the shareholder, or (e) any corporate action, to the extent the articles of incorporation provided that a shareholder is entitled to dissent and obtain payment for his shares. Unless otherwise provided in the articles of incorporation, no appraisal rights are available in connection with a conversion, plan of merger, share exchange or a proposed sale or exchange of property to holders of shares of any class or series that is (i) listed on a national securities exchange, (ii) designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc., or (iii) held of record by not fewer than 2,000 shareholders and having a market value of at least $10,000,000.

Under the FBCA, appraisal rights are not available in the merger for Florida Public Utilities shareholders.

Record Date for Determining Shareholders Entitled to Vote

Chesapeake

As permitted under the DGCL, the Chesapeake bylaws provide that in order that Chesapeake may determine the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, the board of directors may fix a record date, which record date will not be more than 60 nor less than 10 days before the date of such meeting. The Chesapeake bylaws further provide that if no record date is fixed, the record date for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or if

notice is waived, at the close of business on the day next preceding the day on which the meeting is held. Pursuant to the Chesapeake bylaws, when a determination of shareholders of record entitled to notice of or to vote at any meeting of shareholders has been made as provided in this paragraph, such determination shall apply to any adjournment thereof; provided, however, that the Chesapeake board of directors may fix a new record date for the adjourned meeting.

Florida Public Utilities

As permitted by the FBCA, the Florida Public Utilities bylaws provide that the Florida Public Utilities board of directors may fix a day not more than 60 days prior to the holding of any shareholder meeting as a day as of which stockholders of record entitled to notice of and to vote at such meeting shall be determined, and only stockholders of record on such day shall be entitled to notice of or to vote at such meeting.

Notice of Shareholder Meetings

Chesapeake

As permitted under the DGCL, the Chesapeake bylaws provide that written notice of an annual or special meeting must be served upon or mailed to each shareholder entitled to vote at such meeting at least 10 but not more than 60 days prior to the meeting. Such notice must state the location, date and hour of the meeting. A notice of a special meeting must describe the order of business to be addressed at the meeting.

Florida Public Utilities

The FBCA provides that a corporation must notify shareholders of the date, time, and place of each annual and special shareholders' meeting no fewer than 10 or more than 60 days before the meeting date. The Florida Public Utilities bylaws provide that notice of each shareholders' meeting, stating the date, time and place, and in the case of special meetings the objects for which such meeting is called, must be given by Florida Public Utilities' secretary or assistant secretary by mail to each shareholder of record entitled to vote thereat at least 10 days prior to the date of the meeting, and the person giving such notice must make affidavit in relation thereto. The Florida Public Utilities bylaws further provide that any meeting at which every shareholder entitled to vote is present either in person or by proxy, or of which those not present have waived notice in writing, or at which shareholders who hold four-fifths of the stock entitled to vote are present however called or notified, and shall sign a written consent thereto on the records of the meeting, shall be a legal meeting for the transaction of business, notwithstanding that notice has not been given as provided above.

Advance Notice of Shareholder Nominations for Directors and Shareholder Proposals

Chesapeake

Under the Chesapeake bylaws, for any business (other than the nomination of directors) to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of Chesapeake. To be timely, a shareholder's notice must be received at the principal executive offices of Chesapeake not earlier than the close of business on the 90th day and not later than the close of business on the 60th day prior to the first anniversary of the preceding year's annual meeting; provided however, that in the event the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to the date of such annual meeting and not later than the close of business on the later of the 60th day prior to the date of such annual meeting or, if notice of the meeting is mailed or the first public announcement of the date of such annual meeting is made less than 75 days prior to the date of such annual meeting, the 15th day following the date on which such notice is mailed or such public announcement of the date of such meeting is first made by Chesapeake, whichever occurs first. A shareholder's notice to the secretary must set forth the following information, and must include a representation as to the accuracy of the information: (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and

record address of the shareholder proposing such business, (c) the class and number of shares of Chesapeake that are directly or indirectly, owned beneficially and/or of record by the shareholder, (d) any option, warrant, convertible, security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of Chesapeake or with a value derived in whole or in part from the value of any class or series of shares of Chesapeake, whether or not the instrument or right is subject to settlement in the underlying class or series of capital stock of Chesapeake or otherwise, each of the foregoing being a derivative instrument, that is directly or indirectly owned beneficially by the shareholder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of Chesapeake, (e) any proxy, contract, arrangement, understanding, or relationship pursuant to which the shareholder has a right to vote or has granted a right to vote any shares of any security of Chesapeake, (f) any short interest in any security of Chesapeake, (g) any rights to dividends on the shares of Chesapeake owned beneficially by the shareholder that are separated or separable from the underlying shares of Chesapeake, (h) any proportionate interest in shares of Chesapeake or derivative instruments held, directly or indirectly, by a general or limited partnership or limited liability company or similar entity in which the shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, is the manager, managing member or directly or indirectly beneficially owns an interest in the manager or managing member of a limited liability company or similar entity, (i) any performance-related fees (other than an asset-based fee) that the shareholder is entitled to based on any increase or decrease in the value of shares of Chesapeake or derivative instruments, if any, (j) any arrangement, rights or other interests described in subsections (c) through (i) above held by members of such shareholder's immediate family sharing the same household, (k) any other information related to the shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for the proposal pursuant to Section 14 of the Exchange Act and the rules and regulations thereunder, (l) any material interest of the shareholder in such business, (m) a description of any arrangements and understandings between such shareholder and any other person or persons in connection with the proposal of such business by such shareholder, and (n) any other information as reasonably requested by Chesapeake.

The Chesapeake bylaws provide that nominations for the election of Chesapeake directors by shareholders must be in writing, and in the form prescribed below, and will be effective when delivered by hand or received by registered first-class mail, postage prepaid, by Chesapeake's secretary not less than 14 days nor more than 80 days prior to any meeting of the shareholders called for the election of directors; provided, however, that if less than 21 days notice of the meeting is given to shareholders, such writing must be received by Chesapeake's secretary not later than the close of business on the seventh day following the day on which notice of the meeting was mailed to shareholders. Nominations by shareholders must be in the form of a notice that sets forth (a) as to each nominee (i) the name, age, business address and, if known, residence address of such nominee, (ii) the principal occupation or employment of such nominee, (iii) the information described in clauses (c) through (j) in the preceding paragraph as it relates to the nominee, (iv) the consent of the nominee to serve as a director if so elected, (v) a description of all arrangements or understandings between the shareholder and the nominee, (vi) a description of all arrangements or understandings between the shareholder and any other person or persons pursuant to which the nomination is to be made by the shareholder, and (vii) any other information relating to the nominee required to be disclosed in solicitations of proxies for election of directors, or otherwise required pursuant to Regulation 14A under the Exchange Act, and (b) as to the shareholder giving the notice (i) the name and address, as they appear on Chesapeake's books, of such shareholder, (ii) the information described in clauses (c) through (j) in the preceding paragraph, and (iii) and any other information as reasonably requested by Chesapeake. Such shareholder notice must include a representation as to the accuracy of the information set forth in the notice. In addition, each nominee must complete and sign a questionnaire, in a form provided by Chesapeake, to be submitted with the shareholder's notice, that inquires as to, among other things, the nominee's independence and director eligibility.

Florida Public Utilities

The Florida Public Utilities bylaws provide that for any nominations of a candidate for election as a director or other business to be properly brought before any meeting, annual or special, by a shareholder, the shareholder must have given timely notice thereof in writing to Florida Public Utilities' secretary. In the case of an annual meeting, such notice must be given not less than 90 nor more than 120 days prior to anniversary of the last annual meeting of shareholders; provided, however, that in the event that the annual meeting date is changed by more than 30 days from the anniversary of the last annual meeting, and Florida Public Utilities provides less than 100 days notice (or prior public disclosure) of such changed date, to be timely, notice of a proposal delivered by the shareholder must be received by the secretary not later than the close of business on the 10th day following the day on which Florida Public Utilities gives such notice (or makes such public disclosure). In the case of a special meeting, to be timely, notice by a shareholder must be given not more than 10 days immediately following the date on which Florida Public Utilities gives notice of such special meeting. The Florida Public Utilities bylaws further provide that a shareholder's notice must set forth: (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the bylaws or articles of incorporation of Florida Public Utilities, the language of the proposed amendment), the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on Florida Public Utilities' books, and of such beneficial owner, (ii) the class or series and number of shares of stock of Florida Public Utilities held of record and beneficially by such shareholder and such beneficial owner and any option, warrant, convertible security, stock appreciation right, or other derivative instrument held by such person(s), (iii) a description of any agreement, arrangement or understanding with respect to the nomination or proposal between or among such shareholder and such beneficial owner, any of their respective affiliates or associates, and any others acting in concert with any of the foregoing, (iv) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, warrants, stock appreciation or similar rights, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the shareholder's notice by, or on behalf of, such shareholder and such beneficial owners, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of, such shareholder or such beneficial owner, with respect to shares of stock of Florida Public Utilities, (v) the name in which all such shares of stock are registered on the stock transfer books of Florida Public Utilities, (vi) a representation that the shareholder is a holder of record of stock of Florida Public Utilities entitled to vote at such meeting and that the shareholder (or a qualified representative of the shareholder) intends to appear at the meeting in person to submit the business or nomination specified in such notice, (vii) a representation whether the shareholder or the beneficial owner, if any, intends or is part of a group which intends (A) to deliver a proxy statement and/or form of proxy to holders of at least the percentage of Florida Public Utilities' outstanding capital stock required to approve or adopt the proposal or elect the nominee and/or (B) otherwise to solicit proxies from shareholders in support of such proposal or nomination, and (viii) all other information relating to the proposed business or nomination which may be required to be disclosed under applicable law. The Florida Public Utilities bylaws provide that a shareholder seeking to submit such business or nomination at the meeting must promptly provide any other information reasonably requested by Florida Public Utilities. The Florida Public Utilities bylaws deem the foregoing notice requirements to be satisfied by a shareholder with respect to business other than a nomination if the shareholder has notified Florida Public Utilities of his, her or its intention to present a proposal at an annual meeting in compliance with applicable rules and regulations promulgated under the Exchange Act and such shareholder's proposal has been included in a proxy statement that has been prepared by Florida Public Utilities to solicit proxies for such annual meeting. The Florida Public Utilities bylaws allow it to require any proposed nominee to furnish such other

information as it may reasonably require to determine the eligibility of such proposed nominee to serve as a director of Florida Public Utilities.

Shareholder Inspection of Corporate Records

Chesapeake

The DGCL provides any shareholder with the right to inspect the corporation's stock ledger, shareholder lists and other books and records for a purpose reasonably related to the person's interest as a shareholder. A complete list of the shareholders entitled to vote at a shareholders meeting must be available for shareholder inspection at least 10 days before the meeting. In addition to the inspection rights granted under the DGCL, the Chesapeake bylaws provide that at least ten days before every meeting of the shareholders, Chesapeake's secretary will prepare a complete list of the shareholders entitled to vote at said meeting, arranged in alphabetical order, with the residence of each and the number of voting shares held by each. Such list will be open for 10 days to examination by any shareholder for any purpose germane to the meeting during regular business hours at the place where the meeting is to be held, or at such other place within the city in which the meeting is to be held as shall be specified in the notice of the meeting, and also will be produced and kept at the time and place of the meeting, during the whole time thereof, and may be inspected by any shareholder who is present.

Florida Public Utilities

The FBCA provides that if the shareholder gives the corporation written notice of his or her demand at least 5 business days before the date on which he or she wishes to inspect and copy such records, a shareholder of a corporation is entitled to inspect and copy, during regular business hours at the corporation's principal office: (i) the corporation's articles or restated articles of incorporation and all amendments to them currently in effect; (ii) the corporation's bylaws or restated bylaws and all amendments to them currently in effect; (iii) resolutions adopted by the corporation's board of directors creating one or more classes or series of shares and fixing their relative rights, preferences, and limitations, if shares issued pursuant to those resolutions are outstanding; (iv) the minutes of all shareholders' meetings and records of all action taken by shareholders without a meeting for the past 3 years; (v) written communications to all shareholders generally or all shareholders of a class or series within the past 3 years, including the financial statements furnished for the past 3 years required under the FBCA; (vi) a list of the names and business street addresses of the corporation's current directors and officers; and (vii) the corporation's most recent annual report delivered to the Florida Department of State pursuant to the FBCA. The FBCA also provides that if the shareholder gives the corporation written notice of his or her demand at least 5 business days before the date on which he or she wishes to inspect and copy such records, a shareholder of a corporation is entitled to inspect and copy, during regular business hours at the corporation's principal office: (a) excerpts from minutes of any meeting of the board of directors, records of any action of a committee of the board of directors while acting in place of the board of directors on behalf of the corporation, minutes of any meeting of the shareholders, and records of action taken by the shareholders or board of directors without a meeting; (b) accounting records of the corporation; (c) the record of shareholders; and (d) any other books and records; provided, however, that a shareholder is entitled to inspect and copy those records only if: (x) the shareholder's demand is made in good faith and for a proper purpose; (y) the shareholder describes with reasonable particularity his or her purpose and the records he or she desires to inspect; and (z) the records are directly connected with the shareholder's purpose.

Interested Director Transactions

Chesapeake

The DGCL generally permits transactions involving a corporation and an interested director of that corporation if: (i) the material facts as to the director's relationship or interest and as to the transaction are disclosed or are known to the board of directors or a committee thereof, and the board of directors or committee in good faith authorizes the transaction by the affirmative vote of a majority of the disinterested

directors, even though the disinterested directors represent less than a quorum; (ii) the material facts as to the director's relationship or interest and as to the transaction are disclosed or are known to the shareholders entitled to vote thereon, and the transaction is specifically approved in good faith by vote of the shareholders; or (iii) the transaction is fair to the corporation. The DGCL allows loans to officers and employees whenever, in the judgment of the directors, such loan may reasonably be expected to benefit the corporation.

Florida Public Utilities

The FBCA generally permits transactions involving a corporation and an interested director of that corporation if: (i) the fact of such relationship or interest is disclosed or known to the board of directors or committee which authorizes, approves or ratifies the contract or transaction by the affirmative vote of a majority of the disinterested directors on the board or the committee; (ii) the fact of such relationship or interest is disclosed or known to the shareholders entitled to vote and they authorize, approve, or ratify such contract or transaction by the affirmative vote of a majority of the shares entitled to vote; or (iii) the contract or transaction is fair and reasonable as to the corporation at the time it is authorized by the board, a committee or the shareholders. The FBCA also allows loans to officers, directors and employees whenever, in the judgment of the board of directors, such loan may reasonably be expected to benefit the corporation.

LEGAL MATTERS

Prior to the date this registration statement becomes effective, Baker & Hostetler LLP will provide an opinion regarding the validity of the Chesapeake common stock to be issued to Florida Public Utilities shareholders in the merger. Prior to the date this registration statement becomes effective, Chesapeake and Florida Public Utilities will have received a written opinion from Baker & Hostetler LLP to the effect that, for United States federal income tax purposes, the merger will constitute a reorganization within the meaning of section 368(a) of the Internal Revenue Code. It is also a condition to the completion of the merger that Baker & Hostetler LLP confirm its tax opinion as of the closing date of the merger.

EXPERTS

The consolidated financial statements and schedule of Chesapeake and its subsidiaries as of December 31, 2007 and 2008, and for the years then ended and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2008, have been incorporated by reference in this joint proxy statement/prospectus from the Chesapeake Annual Report for the year ended December 31, 2008 on Form 10-K filed March 9, 2009, in reliance upon the reports of Beard Miller Company LLP, an independent registered public accounting firm, also incorporated by reference in this joint proxy statement/prospectus, given on the authority of said firm as an expert in accounting and auditing.

The consolidated financial statements of Chesapeake and its subsidiaries for the year ended December 31, 2006, before the effects of the adjustments to retrospectively reflect the discontinued operations described in Note B (not separately included or incorporated by reference in this joint proxy statement/prospectus) have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. The adjustments to those financial statements to retrospectively reflect the discontinued operations described in Note B have been audited by Beard Miller Company LLP, an independent registered public accounting firm. The consolidated financial statements of Chesapeake and its subsidiaries for the year ended December 31, 2006 have been incorporated by reference in this joint proxy statement/prospectus from the Chesapeake Annual Report on Form 10-K for the year ended December 31, 2008 filed March 9, 2009, in reliance upon the reports of (i) PricewaterhouseCoopers LLP solely with respect to those financial statements before the effects of the adjustments to retrospectively reflect the discontinued operations described in Note B and (ii) Beard Miller Company LLP solely with respect to the adjustments to those financial statements to retrospectively reflect the discontinued operations described in Note B, also incorporated by reference in this joint proxy statement/prospectus, given on the authority of said firms as experts in accounting and auditing.

The consolidated financial statements of Florida Public Utilities as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 incorporated by reference in this joint proxy statement/prospectus have been so incorporated in reliance on the report of BDO Seidman, LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

FUTURE SHAREHOLDER PROPOSALS

Chesapeake

Pursuant to regulations issued by the SEC, to be considered for inclusion in Chesapeake's proxy statement for presentation at Chesapeake's 2010 Annual Meeting of Shareholders, all shareholder proposals must be received by Chesapeake at its principal executive offices on or before the close of business on November 30, 2009. If a shareholder notifies Chesapeake after November 30, 2009 of an intent to present a proposal at the 2010 Annual Meeting of Shareholders, Chesapeake will have the right to exercise its discretionary voting authority with respect to such proposal without including information regarding such proposal in its proxy materials. Written proposals should be directed to the Corporate Secretary, Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904.

In addition to these SEC rules, under the Chesapeake bylaws a shareholder wishing to bring an item of business before the 2010 Annual Meeting of Shareholders must provide timely notice in writing to the Corporate Secretary, Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904. To be timely, the shareholder's notice must be received by at least 60 days but not more than 90 days prior to the anniversary date of the 2009 Annual Meeting of Shareholders. The Chesapeake bylaws also provide for certain requirements in the event the 2010 Annual Meeting of Shareholders is more than 30 days before or more than 60 days after such anniversary date. A shareholder's notice to the Corporate Secretary must contain the information set forth in the Chesapeake bylaws. This information includes, but is not limited to, a description of the business to be brought before the meeting, "Ownership and Rights Information" (as described in the Chesapeake bylaws), and any other information that would be required to be made in connection with the solicitation of proxies. The shareholder is also required to include a representation as to the accuracy of the information that is being provided.

Chesapeake will consider all shareholder nominations for directors provided that each such nomination complies with the provisions of the Chesapeake bylaws and the charter of the Chesapeake corporate governance committee. Chesapeake's Corporate Secretary must receive (at the address above) director nominations by shareholders not less than 14 days nor more than 80 days prior to the 2010 Annual Meeting of Shareholders. Each nomination must be in writing and must include:

- *As to each nominee:*
  - name, age, business address and, if known, residential address;
  - principal occupation or employment;
  - number of shares of Chesapeake stock beneficially owned;
  - "Ownership and Rights Information" (as described in the Chesapeake bylaws);
  - consent to serve as a director of Chesapeake if elected;
  - description of all arrangements or understandings between (i) the shareholder and the nominee, and (ii) any other person(s) pursuant to which the nomination is to be made;
  - a questionnaire that inquires as to, among other things, the nominee's independence and eligibility; and
  - any other information required to be disclosed in solicitations of proxies for election of directors, or otherwise required pursuant to Schedule 14A under the Exchange Act.

- *As to the shareholder making the nomination:*
  - name and address as they appear on Chesapeake's books;
  - other information as requested by Chesapeake;
  - representation of the accuracy of the information in the notice; and
  - "Ownership and Rights Information" (as described in the Chesapeake bylaws).

The Chesapeake corporate governance committee will consider a recommendation from a shareholder only if the information specified above is complete. The committee will consider several factors prior to recommending a candidate for inclusion in the Chesapeake board of director's slate of recommended director nominees for election by the shareholders. Generally, the committee will consider the existing size and composition of the board of directors, evaluate biographical information and other background material, and conduct an interview of each candidate selected. The committee will apply any director selection criteria adopted by the committee based on Chesapeake's circumstances at the time. The committee will also apply the criteria set forth in Chesapeake's corporate governance guidelines. This criteria relates to a candidate's character, judgment, business experience or professional background, knowledge of Chesapeake's business, community involvement, and availability and commitment to carry out the responsibilities as a director of Chesapeake (directors may not be directors of more than two public companies in addition to Chesapeake), as well as the candidate's independence under applicable regulations and listing standards. The specific director selection criteria include, but may not in all instances be limited to, the following:

- leadership in a particular field of expertise;
- education or experience that enables the exercise of sound business judgment;
- background or experience that enables differing points of view;
- willingness to listen and work in a collegial manner;
- knowledge, experience and skills that enhance the mix of the board's core competencies; and
- professional achievement generally through service as a principal executive of a major company; distinguished member of academia; partner in a law firm or accounting firm; successful entrepreneur; or similar position of significant responsibility.

Chesapeake's corporate governance committee does not assign specific weights to these criteria, and not all of the criteria are necessarily applicable to all prospective nominees. Chesapeake believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow its board of directors to fulfill its responsibilities.

Chesapeake's Annual Meeting of Shareholders is generally held during the first week of May. It is anticipated that the 2010 Annual Meeting of Shareholders will be held in early May 2010.

The chairman of the meeting may refuse to allow the transaction of any business not presented beforehand, or to acknowledge the nomination of any person not made in compliance with the foregoing procedures.

Florida Public Utilities

Florida Public Utilities held its 2009 annual meeting of shareholders on May 12, 2009. In light of the expected timing of the effectiveness of the merger, Florida Public Utilities does not currently expect to hold an annual meeting of its shareholders in 2010.

If Florida Public Utilities holds an annual meeting of shareholders in 2010, any shareholder who wishes to propose a matter for consideration at such annual meeting must submit the proposal in writing to Florida Public Utilities Company, 401 South Dixie Highway, West Palm Beach, Florida 33401, Attention: Secretary. To be eligible under Rule 14a-8 of the Exchange Act for inclusion in the annual meeting proxy statement, a proposal must be received no later than the 120th calendar day before the anniversary of the date on which the

2009 annual meeting proxy statement was released to shareholders (or if the annual meeting date has changed by more than 30 days, a reasonable time before Florida Public Utilities begins to print and mail its proxy statement).

In addition to these SEC rules, the Florida Public Utilities bylaws require advance notice of business to be brought before a shareholders' annual meeting, including nominations of persons for election as directors. Shareholder proposals intended to be presented at Florida Public Utilities' 2010 annual meeting of shareholders must be received by Florida Public Utilities by December 4, 2009 for inclusion in Florida Public Utilities' proxy statement and form of proxy card for that meeting. For any nominations of a candidate for election as a director or other business to be properly brought by a shareholder before the annual meeting, the shareholder must have given timely notice thereof in writing to Florida Public Utilities' Secretary. Pursuant to the Florida Public Utilities bylaws, notice must be given not less than 90 days nor more than 120 days prior to anniversary of the 2009 annual meeting of shareholders. For director nominations, the notice must include the information required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A of the Exchange Act and such other matters as are specified in the Florida Public Utilities bylaws. For other business, the notice must include a description of the proposed business, the reasons therefore, and other matters specified in the Florida Public Utilities bylaws. These time limits also apply in determining whether notice is timely for purposes of rules adopted by SEC relating to the exercise of discretionary voting authority.

WHERE YOU CAN FIND MORE INFORMATION

Chesapeake filed a registration statement on Form S-4 on July 24, 2009, to register with the SEC the Chesapeake common stock to be issued to Florida Public Utilities shareholders in the merger. This joint proxy statement/prospectus is a part of that registration statement and constitutes a prospectus of Chesapeake in addition to being a proxy statement/prospectus of Chesapeake and Florida Public Utilities for their respective meetings. The registration statement, including the attached exhibits and schedules, contains additional relevant information about Chesapeake and Chesapeake's capital stock. The rules and regulations of the SEC allow Chesapeake and Florida Public Utilities to omit certain information included in the registration statement from this joint proxy statement/prospectus. The registration statement is available for inspection and/or copying as set forth below.

Chesapeake and Florida Public Utilities file annual, quarterly and current reports, proxy statements and other information in accordance with the Exchange Act with the SEC. You may read and copy any reports, proxy statements or other information filed by Chesapeake and Florida Public Utilities with the SEC at the SEC's public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC- 0330 for further information on the public reference room. These SEC filings are also available to the public from commercial document retrieval services and at the SEC's website at *www.sec.gov*.

You may also inspect annual, quarterly and current reports, proxy statements and other information about Chesapeake at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

The SEC allows Chesapeake and Florida Public Utilities to "incorporate by reference" information into this joint proxy statement/prospectus, which means that the companies can disclose important information to you by referring you to other documents filed separately with the SEC. The information incorporated by reference is considered part of this joint proxy statement/prospectus, except for any information contained directly in this joint proxy statement/prospectus or in later filed documents incorporated by reference in this joint proxy statement/prospectus.

This joint proxy statement/prospectus incorporates by reference the documents listed below that Chesapeake and Florida Public Utilities have previously filed with the SEC. These documents contain important business and financial information about Chesapeake and Florida Public Utilities that is not included in or delivered with this joint proxy statement/prospectus.

Chesapeake SEC Filings (File No. 001-11590)	Period
Annual Report on Form 10-K	Fiscal Year ended December 31, 2008
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2009 and June 30, 2009
Current Reports on Form 8-K	Filed on March 9, 2009, April 20, 2009, May 4, 2009, July 21, 2009 and August 6, 2009
Proxy Statement on Schedule 14A	Filed on March 27, 2009

Florida Public Utilities SEC Filings (File No. 001-10608)	Period
Annual Report on Form 10-K	Fiscal Year ended December 31, 2008
Quarterly Reports on Form 10-Q	Quarters ended March 31, 2009 and June 30, 2009
Current Reports on Form 8-K	Filed on March 2, 2009, March 16, 2009, March 17, 2009, April 20, 2009, May 14, 2009 and August 12, 2009
Proxy Statement on Schedule 14A	Filed on April 6, 2009

To the extent that any information contained in any Current Report on Form 8-K, or any exhibit thereto, was furnished, rather than filed with, the SEC, such information or exhibit is specifically not incorporated by reference in this document.

This joint proxy statement/prospectus also incorporates by reference all additional documents that may be filed by Chesapeake and Florida Public Utilities with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of this joint proxy statement/prospectus and the date of the Chesapeake special meeting and the date of the Florida Public Utilities special meeting, as applicable. These include periodic reports, such as Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as proxy statements (other than portions of those documents not deemed to be filed).

Chesapeake has supplied all information contained or incorporated by reference in this joint proxy statement/prospectus relating to Chesapeake, and Florida Public Utilities has supplied all information contained or incorporated by reference in this joint proxy statement/prospectus relating to Florida Public Utilities.

Chesapeake and Florida Public Utilities shareholders can obtain any document incorporated by reference in this joint proxy statement/prospectus from the companies without charge, excluding all exhibits unless the exhibits have been specifically incorporated by reference as an exhibit in this joint proxy statement/prospectus, by requesting them in writing or by telephone from the appropriate company at the following addresses:

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, Delaware 19904
Attention: Corporate Secretary
(888) 742-5275

Florida Public Utilities Company
401 South Dixie Highway
West Palm Beach, Florida 33401
Attention: Secretary
(800) 427-7712

If you would like to request documents, please do so by October 10, 2009. You may also obtain these documents from Chesapeake's and Florida Public Utilities' respective websites at *www.chpk.com* or *www.fpuc.com* or at the SEC's website at *www.sec.gov* by clicking on the "Search for Company Filings" link, then clicking on the "Company & Other Filers" link, and then entering the company's name in the field.

You should rely only on the information contained or incorporated by reference in this joint proxy statement/prospectus. Chesapeake and Florida Public Utilities have not authorized anyone to provide you with information that is different from what is contained in this joint proxy statement/prospectus. Therefore, if

anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this joint proxy statement/prospectus or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this joint proxy statement/prospectus does not extend to you. This joint proxy statement/prospectus is dated September 10, 2009. You should not assume that the information contained in this joint proxy statement/prospectus is accurate as of any date other than that date. Neither the mailing of this joint proxy statement/prospectus to Chesapeake and Florida Public Utilities shareholders nor the issuance of Chesapeake common stock in the merger create any implication to the contrary.

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Annex A

Execution Version

AGREEMENT AND PLAN OF MERGER

among

CHESAPEAKE UTILITIES CORPORATION,

CPK PELICAN, INC.

and

FLORIDA PUBLIC UTILITIES COMPANY

April 17, 2009

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AGREEMENT AND PLAN OF MERGER

This AGREEMENT AND PLAN OF MERGER, dated as of April 17, 2009 (this **"Agreement"**), is among Chesapeake Utilities Corporation, a Delaware corporation (**"Parent"**), CPK Pelican, Inc., a Florida corporation and a wholly owned subsidiary of Parent (**"Merger Sub"**), and Florida Public Utilities Company, a Florida corporation (the **"Company"** and collectively with Parent and Merger Sub, the **"parties"**).

RECITALS

WHEREAS, the respective Boards of Directors of Parent and the Company have determined that a business combination between Parent and the Company is fair to and in the best interests of their respective stockholders and presents a unique opportunity for their respective companies to achieve long-term strategic and financial benefits, and accordingly have agreed to effect a business combination upon the terms and subject to the conditions set forth in this Agreement, have approved this Agreement and have declared this Agreement and the Merger advisable;

WHEREAS, in furtherance of the foregoing, the Board of Directors of each of Parent, the Company and Merger Sub has approved this Agreement and the Merger, upon the terms and subject to the conditions of this Agreement, pursuant to which each share of common stock, par value $1.50 per share, of the Company (the **"Company Common Stock"**) issued and outstanding immediately prior to the Effective Time will be converted into the right to receive shares of common stock, par value $0.4867 per share, of Parent (the **"Parent Common Stock"**) as set forth in *Section 1.9*, other than the Company Common Stock owned or held directly or indirectly by Parent, Merger Sub or the Company (or any of their respective direct or indirect wholly owned Subsidiaries); and

WHEREAS, for federal income tax purposes, it is intended by the parties that (i) the Merger qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the **"Code"**), and the rules and regulations promulgated thereunder (the **"Treasury Regulations"**), and (ii) this Agreement constitute a plan of reorganization within the meaning of Section 368 of the Code and such Treasury Regulations.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE 1

THE MERGER; CERTAIN RELATED MATTERS

SECTION 1.1 *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, at the Effective Time, Merger Sub shall be merged with and into the Company (the **"Merger"**) in accordance with the Florida Business Corporation Act (the **"FBCA"**) and this Agreement, and the separate corporate existence of Merger Sub shall thereupon cease. The Company shall be the surviving corporation in the Merger (sometimes referred to herein as the **"Surviving Corporation"**).

SECTION 1.2 *The Closing.* Upon the terms and subject to the conditions set forth in *Article 8*, the closing of the Merger (the **"Closing"**) shall take place on the first business day following the satisfaction or waiver (subject to Applicable Laws) of the conditions (other than those conditions that by their nature are to be fulfilled at the Closing, but subject to the fulfillment or waiver of such conditions) set forth in *Article 8*, unless this Agreement has been previously terminated pursuant to its terms or unless another date is agreed to in writing by the parties (the actual date of the Closing being referred to herein as the **"Closing Date"**). The Closing shall be held at the offices of Baker & Hostetler LLP, Suntrust Center, Suite 2300, 200 South Orange Avenue, Orlando, Florida 32801, unless another place is agreed to in writing by the parties.

SECTION 1.3 *Effective Time.* At the Closing, the parties shall file articles of merger (the **"Articles of Merger"**) in such form as is required by and executed in accordance with the relevant provisions of the

FBCA. The Merger shall become effective at the time of filing of the Articles of Merger with the Department of State of the State of Florida in accordance with the FBCA or at such later time as the Company and Parent shall have agreed upon and designated in the Articles of Merger as the effective time of the Merger (the time the Merger becomes effective being the **"Effective Time"**).

SECTION 1.4 *Effects of Merger.* At and after the Effective Time, the Merger shall have the effects specified herein and in the FBCA. As a result of the Merger, the Surviving Corporation shall become a wholly owned Subsidiary of Parent.

SECTION 1.5 *Articles of Incorporation of the Surviving Corporation.* As of the Effective Time, the articles of incorporation of Merger Sub as in effect immediately prior to the Effective Time shall be the articles of incorporation of the Surviving Corporation, until thereafter amended as provided therein or by Applicable Law, provided, however, that the articles of incorporation of the Surviving Corporation shall be amended in the Merger to provide that the Surviving Corporation shall have the name "Florida Public Utilities Company."

SECTION 1.6 *Bylaws of the Surviving Corporation.* As of the Effective Time, the bylaws of Merger Sub as in effect immediately prior to the Effective Time shall be the bylaws of the Surviving Corporation, until thereafter amended as provided therein or by Applicable Law, provided, however, that such bylaws shall be amended to reflect the change of the name of the Surviving Corporation as contemplated by *Section 1.5.*

SECTION 1.7 *Directors of the Surviving Corporation.* The directors of Merger Sub immediately prior to the Effective Time shall be the directors of the Surviving Corporation from and after the Effective Time, until their successors shall be elected and qualified or their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of the Surviving Corporation.

SECTION 1.8 *Officers of the Surviving Corporation.* The officers of the Surviving Corporation from and after the Effective Time shall be those persons with the corresponding titles as set forth in Exhibit 1.8 hereto, until their successors shall be elected or appointed and qualified or their earlier death, resignation or removal in accordance with the articles of incorporation and bylaws of the Surviving Corporation.

SECTION 1.9 *Effect on Capital Stock.*

(a) At the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Common Stock to be canceled without payment of any consideration therefor pursuant to *Section 1.9(c)*) (the **"Shares"**) shall be converted into the right to receive 0.405 shares (the **"Exchange Ratio"**) of validly issued, fully paid and non-assessable Parent Common Stock (the **"Merger Consideration"**).

(b) As a result of the Merger and without any action on the part of the holders thereof, at the Effective Time, all shares of Company Common Stock shall cease to be outstanding and shall be canceled and retired and shall cease to exist, and each holder of a certificate previously representing any such shares of Company Common Stock shall thereafter cease to have any rights with respect to such shares of Company Common Stock, except the right to receive (i) the Merger Consideration payable in respect of such shares of Company Common Stock, (ii) any dividends pursuant to *Section 2.3* and (iii) any cash to be paid in lieu of any fractional share of Parent Common Stock pursuant to *Section 2.5.*

(c) At the Effective Time, each share of Company Common Stock issued and held in the Company's treasury and each share of Company Common Stock issued and owned immediately prior to the Effective Time by Merger Sub or Parent (or any of their respective direct or indirect wholly owned Subsidiaries) shall, by virtue of the Merger, cease to be outstanding and shall be canceled and retired and no Parent Common Stock or other consideration shall be delivered in exchange therefor.

(d) At the Effective Time, by virtue of the Merger and without any action on the part of the holder thereof, each share of common stock, par value $0.01 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one validly issued, fully paid and nonassessable share of common stock, par value $0.01 per share, of the Surviving Corporation.

(e) Prior to the Effective Time, each issued and outstanding share of Company Preferred Stock shall be redeemed in accordance with *Section 7.20*.

SECTION 1.10 *Change in Shares.* If, between the date of this Agreement and the Effective Time (and to the extent permitted by *Section 6.1* or *6.2*, as the case may be), the outstanding shares of Company Common Stock or Parent Common Stock shall have been increased, decreased, changed into or exchanged for a different number of shares or different class, in each case by reason of any reclassification, recapitalization, subdivision, stock split, reorganization, combination, contribution or exchange of shares, or a stock dividend or dividend payable in other securities shall be declared with a record date within such period, or any similar event shall have occurred, the Exchange Ratio and any other number or amount contained herein which is based upon the price of Parent Common Stock, including the Measurement Price, or the number of shares of Company Common Stock or Parent Common Stock, as the case may be, shall be appropriately adjusted to provide to Parent and the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event.

ARTICLE 2

EXCHANGE OF SHARES

SECTION 2.1 *Exchange Fund.* Prior to the Effective Time, Parent shall appoint a bank or trust company reasonably satisfactory to the Company to act as exchange agent (the **"Exchange Agent"**) for the purpose of exchanging Shares for the Merger Consideration. At or prior to the Effective Time, Parent shall deposit, or cause to be deposited with the Exchange Agent, in trust for the benefit of the holders of shares of Company Common Stock, certificates representing the shares of Parent Common Stock to be issued pursuant to *Section 1.9*. Parent agrees to make available directly or indirectly to the Exchange Agent, from time to time as needed, cash sufficient to pay cash in lieu of fractional shares pursuant to *Section 2.5* and any dividends pursuant to *Section 2.3*. All cash in lieu of fractional shares and certificates for shares of Parent Common Stock, together with any dividends with respect thereto, deposited with the Exchange Agent shall hereinafter be referred to as the **"Exchange Fund."**

SECTION 2.2 *Exchange Procedures.* Promptly (and in any event no more than three business days) after the Effective Time, the Surviving Corporation shall cause the Exchange Agent to mail to each holder of record of Shares: (i) a letter of transmittal (the **"Letter of Transmittal"**), which shall specify that delivery shall be effected, and risk of loss and title to the Shares shall pass, only upon delivery of the Shares to the Exchange Agent, and which shall be in such form and have such other provisions as Parent and the Company may reasonably agree and (ii) instructions for effecting the surrender of the Shares in exchange for the Merger Consideration. Upon surrender of the Shares to the Exchange Agent together with such Letter of Transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may be reasonably required by the Exchange Agent, the holder of such Shares shall be entitled to receive in exchange therefor (A) one or more shares of Parent Common Stock (which shall be in uncertificated book-entry form unless a physical certificate is requested by such holder) representing, in the aggregate, the whole number of shares of Parent Common Stock that such holder has the right to receive pursuant to *Section 1.9* and/or (B) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of this *Article 2*, consisting of cash in lieu of fractional shares of Parent Common Stock pursuant to *Section 2.5 and any unpaid dividends pursuant to Section 2.3* (collectively, **"Cash Payment"**). No interest will be paid or accrued on any Cash Payment. In the event of a transfer of ownership of Company Common Stock that is not registered in the transfer records of the Company, the Merger Consideration and any Cash Payment to which such holder is entitled may be issued and paid to such a transferee if the Shares representing such Company Common Stock are presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid.

SECTION 2.3 *Dividends with Respect to Unexchanged Shares.* Notwithstanding any other provision of this Agreement, no dividends declared or made after the Effective Time with respect to shares of Parent Common Stock with a record date after the Effective Time shall be paid to the holder of any Shares that have not been surrendered to the Exchange Agent by such holder in accordance with *Section 2.2* with respect to the

shares of Parent Common Stock that such holder would be entitled to receive upon such surrender of such Shares and no cash payment in lieu of fractional shares of Parent Common Stock shall be paid to any such holder pursuant to *Section 2.5* until, in each case, such holder surrenders such Shares in accordance with *Section 2.2*. Subject to the effect of Applicable Laws, following the surrender of any such Shares, there shall be paid to such holder of shares of Parent Common Stock issuable in exchange therefor, without interest, (i) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional shares of Parent Common Stock to which such holder is entitled pursuant to *Section 2.5* and the amount of dividends with a record date after the Effective Time theretofore paid with respect to such whole shares of Parent Common Stock, and (ii) at the appropriate payment date, the amount of dividends with a record date after the Effective Time but prior to surrender of such Shares and a payment date subsequent to such surrender payable with respect to such whole shares of Parent Common Stock.

SECTION 2.4 *No Further Ownership Rights or Claims Relating to Company Common Stock.* All Merger Consideration issued and any cash paid upon conversion of shares of Company Common Stock pursuant to *Article 1* and this *Article 2* shall be deemed to have been issued and paid in exchange for, and in full satisfaction of, all rights pertaining to such shares of Company Common Stock and any claims for, relating to or arising out of shares of Company Common Stock or ownership thereof.

SECTION 2.5 *No Fractional Shares of Parent Common Stock.*

(a) No certificates or scrip or shares of Parent Common Stock representing fractional shares of Parent Common Stock or book-entry credit of the same shall be issued upon the surrender for exchange of the Shares and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of Parent or a holder of shares of Parent Common Stock.

(b) Notwithstanding any other provision of this Agreement, each holder of Shares converted pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Parent Common Stock (after taking into account all Shares delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (i) such fractional part of a share of Parent Common Stock multiplied by (ii) the average of the closing prices for a share of Parent Common Stock as reported on the New York Stock Exchange (the **"NYSE"**) Composite Transactions Tape for the 15 trading days ending on the third trading day immediately preceding the Closing Date (the **"Measurement Price"**). Such payment of cash consideration is in lieu of fractional shares of Parent Common Stock.

(c) As promptly as practicable after the determination of the amount of cash, if any, to be paid to holders of fractional interests pursuant to *Section 2.5(b)*, the Exchange Agent shall so notify Parent, and Parent shall deposit or cause the Surviving Corporation to deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

SECTION 2.6 *Dividends with Respect to Company Common Stock.* At or after the Effective Time, Parent or the Surviving Corporation shall pay from funds on hand at the Effective Time any dividends with a record date prior to the Effective Time that may have been declared or made by the Company on shares of Company Common Stock which remain unpaid at the Effective Time.

SECTION 2.7 *Termination of Exchange Fund.* Any portion of the Exchange Fund (including the proceeds of all investments thereof, any shares of Parent Common Stock and any amount of the Cash Payment) that remains undistributed to the holders of Shares for one year after the Effective Time shall be delivered to Parent, and all holders of the Shares who have not theretofore complied with this *Article 2* shall thereafter look only to Parent for the Merger Consideration and any Cash Payment with respect to such Shares. Any such portion of the Exchange Fund remaining unclaimed by holders of Shares five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental Entity) shall, to the extent permitted by Applicable Law, become the property of Parent, free and clear of any claim or interest of any person previously entitled thereto.

SECTION 2.8 *No Liability.* None of Parent, Merger Sub, the Company, the Surviving Corporation or the Exchange Agent shall be liable to any person for any portion of the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

SECTION 2.9 *Investment of the Exchange Fund.* The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Parent from time to time, provided that such investments shall be in obligations of or guaranteed by the United States of America or in certificates of deposit or other deposit accounts of commercial banks insured by the Federal Deposit Insurance Corporation; provided, that no gain or loss thereon shall affect the amounts of any Cash Payment payable to the holders of Shares pursuant to this *Article 2* . Any interest or other income resulting from such investments shall promptly be paid to Parent.

SECTION 2.10 *Lost Certificates.* If any certificate for Shares shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming such certificate to be lost, stolen or destroyed and, if required by Parent, the posting by such person of a bond in such reasonable amount as Parent may direct as indemnity against any claim that may be made against it with respect to such certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed certificate the applicable Merger Consideration and any Cash Payment with respect to the Shares formerly represented thereby.

SECTION 2.11 *Withholding Rights.* Each of the Surviving Corporation and Parent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of Shares such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and the Treasury Regulations, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by the Surviving Corporation or Parent, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the Shares in respect of which such deduction and withholding was made by the Surviving Corporation or Parent, as the case may be.

SECTION 2.12 *Further Assurances.* After the Effective Time, the officers and directors of the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Sub, all deeds, bills of sale, assignments and assurances and to take and do, in the name and on behalf of the Company or Merger Sub, all other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation all right, title and interest in, to and under the rights, properties and assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

SECTION 2.13 *Stock Transfer Books.* The stock transfer books of the Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company. On or after the Effective Time, all Shares presented to the Exchange Agent or Parent in accordance with the provisions of this Agreement shall be converted into the Merger Consideration and any Cash Payment payable with respect to the shares of Company Common Stock formerly represented thereby.

ARTICLE 3

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Except (i) as set forth in the disclosure schedule dated the date of this Agreement and delivered to Parent by the Company concurrently with the execution and delivery of this Agreement (the "Company Disclosure Schedule") and making reference to the particular section or subsection of this Agreement to which exception is being taken (provided that any information set forth in one section or subsection of the Company Disclosure Schedule will be deemed to apply to each other section or subsection of the Company Disclosure Schedule to which its relevance is reasonably apparent), or (ii) to the extent the qualifying nature of such disclosure is readily apparent therefrom, as disclosed in the Company Reports filed on or after January 1, 2007 and prior to the date hereof, the Company represents and warrants to Parent and Merger Sub as follows:

SECTION 3.1 *Existence; Good Standing; Corporate Authority.* The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Florida. The Company is

duly qualified to do business and, to the extent such concept or a similar concept exists in the relevant jurisdiction, is in good standing under the laws of any jurisdiction in which the character of the properties owned or leased by it therein or in which the transaction of its business requires such qualification, except where the failure to be so qualified or in good standing, individually or in the aggregate, has not had and is not reasonably likely to have a Company Material Adverse Effect. The Company has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now conducted. The copies of the Company's articles of incorporation and bylaws attached to the Company Disclosure Schedule are true and complete copies of such documents as currently in effect.

SECTION 3.2 *Authorization, Validity and Effect of Agreement.* The Company has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement, subject in the case of the consummation of the Merger to obtaining the Company Stockholder Approval. The execution and delivery of this Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all requisite corporate action on behalf of the Company, other than in the case of consummation of the Merger obtaining the Company Stockholder Approval. The Company has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery hereof by the other parties hereto, this Agreement constitutes a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights and general principles of equity.

SECTION 3.3 *Capitalization.* The authorized capital stock of the Company consists of (i) 10,000,000 shares of Company Common Stock, par value $1.50 per share, (ii) 11,000 shares of Cumulative Preferred Stock, par value $100.00 per share (**"Company Preferred Stock"**), 6,000 shares of which have been designated as 4¾% Series A Cumulative Preferred Stock, $100.00 par value per share (**"Company Series A Preferred Stock"**), and 5,000 shares of which have been designated as 4¾% Series B Cumulative Preferred Stock, $100.00 par value per share (**"Company Series B Preferred Stock"**) and (iii) 32,500 shares of Preference Stock, par value $20.00 per share (**"Company Preference Stock"**), all of which have been designated as $1.12 Convertible Preference Stock, Cumulative. As of March 31, 2009 (the **"Cut-off Time"**), there were (A) 6,116,505 outstanding shares of Company Common Stock and 95,999 shares of Company Common Stock held in the treasury of the Company, (B) 6,000 outstanding shares of Company Series A Preferred Stock, (C) no outstanding shares of Company Series B Preferred Stock and (D) no outstanding shares of Company Preference Stock. Since the Cut-off Time, no additional shares of Company Common Stock, Company Preferred Stock or Company Preference Stock have been issued. All issued and outstanding shares of Company Common Stock and Company Preferred Stock are duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights. There are no options, warrants, calls, subscriptions, convertible securities or other rights, agreements or commitments which obligate the Company or any of its Subsidiaries to issue, transfer, sell or register any shares of capital stock or other securities of the Company or any of its Subsidiaries. Except for the Company's obligation pursuant to *Section 7.20*, there are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries. There are no outstanding stock appreciation rights, security-based performance units, "phantom" stock or other security rights or other agreements or arrangements pursuant to which any person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance or other attribute of the Company or any of its Subsidiaries or assets or calculated in accordance therewith (other than payments or commissions to employees or agents of the Company or any of its Subsidiaries in the ordinary course of business consistent with past practices). The Company has no outstanding bonds, debentures, notes or other obligations the holders of which have the right to vote (or which are convertible into or exercisable for securities having the right to vote) with the stockholders of the Company on any matter. There are no voting trusts or other agreements or understandings to which the Company is a party with respect to the voting of capital stock of the Company.

SECTION 3.4 *Subsidiaries.* The Company has no Subsidiaries other than Flo-Gas Corporation, a corporation duly incorporated, validly existing and in good standing under the laws of the State of Florida. The Company's Subsidiary is duly qualified to do business and, to the extent such concept or a similar concept

exists in the relevant jurisdiction, is in good standing under the laws of any jurisdiction in which the character of the properties owned or leased by it therein or in which the transaction of its business requires such qualification, except where the failure to be so qualified or in good standing, individually or in the aggregate, has not had and is not reasonably likely to have a Company Material Adverse Effect. The Company's Subsidiary has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now conducted. The Company has made available to Parent true and complete copies of such Subsidiary's articles of incorporation and bylaws, as currently in effect. As of the date of this Agreement, all of the outstanding shares of capital stock of, or other ownership interests in, the Company's Subsidiary are duly authorized, validly issued, fully paid and nonassessable, and are owned, directly or indirectly, by the Company free and clear of all Liens (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests), except for restrictions imposed by law.

SECTION 3.5 *Compliance with Laws; Permits.* Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect:

(a) Since January 1, 2007, neither the Company nor any of its Subsidiaries has violated or received any notice of violation with respect to, any Order, constitution, law, rule, ordinance, regulation, statute, code or treaty of any Governmental Entity (collectively, **"Applicable Laws"**), and no Action is pending or, to the knowledge of the Company, threatened with respect to any such matter.

(b) The Company and its Subsidiaries hold all permits, waivers, licenses, certifications, orders, franchises, approvals, consents, qualifications and authorizations of all Governmental Entities or pursuant to any Applicable Law necessary for the lawful conduct of their respective businesses (collectively, the **"Company Permits"**). All Company Permits are in full force and effect. Since January 1, 2007, (i) neither the Company nor any of its Subsidiaries has violated or received any written notice of violation with respect to any Company Permit and (ii) to the knowledge of the Company, no Governmental Entity has taken or threatened to take any action to terminate, cancel, amend or reform any material Company Permit.

SECTION 3.6 *No Conflict.*

(a) The execution and delivery of this Agreement by the Company does not and will not, and the consummation by the Company of the Merger and the other transactions contemplated hereby will not (i) conflict with or result in a breach or violation of any provision of the articles of incorporation or bylaws of the Company or any of its Subsidiaries; (ii) violate, conflict with, result in a breach of any provision of, constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, result in the termination or in a right of termination or cancellation of, or result in the creation of any Lien upon any of the properties of the Company or any of its Subsidiaries under, any of the terms, conditions or provisions of any Company Material Contract; or (iii) subject to the filings and other matters referred to in *Section 3.6(b)* and obtaining the Company Stockholder Approval, contravene or conflict with, or constitute a violation of any provision of, or trigger any liability or obligation under, any Applicable Law, Order or Company Permit binding upon or applicable to the Company or any of its Subsidiaries, other than, in the case of clauses (ii) and (iii), any such violations, conflicts, breaches, defaults, terminations, cancellations, liabilities, obligations, Liens, or contraventions that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect.

(b) Neither the execution and delivery of this Agreement by the Company nor the consummation by the Company of the Merger and the other transactions contemplated hereby will require the Company or any of its Subsidiaries to obtain any consent, approval, authorization, order or declaration of, provide any notification to, or make any filing or registration with, any Governmental Entity, other than (i) filings and any approval required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder (the **"HSR Act"**), (ii) the filing with and, to the extent required, the declaration of effectiveness by, the SEC of (A) the Joint Proxy Statement Prospectus pursuant to the Securities Exchange Act of 1934, as amended (the **"Exchange Act"**), and (B) reports required under the Exchange Act, (iii) such notifications to the NYSE Amex (the **"Amex"**) as may be required by the rules of the Amex, (iv) the filing of the Articles of Merger with the Department of State of the State of Florida, (v) to the extent required, notice

to and the approval of the Florida Public Service Commission (the **"FPSC"**) (the **"Company FPSC Approval"**), and (vi) such filings and approvals as are set forth in Section 3.6(b) of the Company Disclosure Schedule in connection with the transfer of the Company's (or any of its Subsidiary's) municipal franchises, except for any consent, approval, authorization, order or declaration as to which the failure to obtain, and for any notification, filing or registration as to which the failure to make, has not had and is not reasonably likely to have a Company Material Adverse Effect. Consents, approvals, authorizations, orders, declarations, notifications, filings and registrations required under or in relation to any of the foregoing clauses (i) through (vi) are hereinafter referred to as **"Company Consents."**

(c) This Agreement, the Merger and the transactions contemplated hereby do not, and will not, upon consummation of such transactions, result in any "change of control" or similar triggering event under any (i) Company Material Contract, (ii) Company Benefit Plan, which, in the case of either clause (i) or (ii), gives rise to rights or benefits not otherwise available absent such change of control or similar triggering event and requires either a cash payment or an accounting charge in accordance with U.S. generally accepted accounting principles (**"GAAP"**), or (iii) material Company Permit.

SECTION 3.7 *SEC Documents and Compliance.*

(a) The Company and its Subsidiaries have filed with the U.S. Securities and Exchange Commission (the **"SEC"**) all documents (including exhibits and any amendments thereto) required to be filed by them since December 31, 2006 (each registration statement, prospectus, report, schedule, form, proxy statement, information statement or other document (other than preliminary materials) so filed, each in the form (including exhibits and any amendments thereto) filed with the SEC, collectively, the **"Company Reports"**). No Subsidiary of the Company is required to file any form, report, registration statement or prospectus or other document with the SEC. As of its respective date, each Company Report (i) complied in all material respects with the applicable requirements of the Exchange Act or the Securities Act of 1933, as amended (the **"Securities Act"**), as the case may be, and the rules and regulations thereunder and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, except for any statements in any Company Report that have been modified by an amendment to such report filed with the SEC prior to the date hereof. Each of the consolidated balance sheets included in or incorporated by reference into the Company Reports (including related notes and schedules) complied as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and fairly presents in all material respects the consolidated financial position of the Company and its Subsidiaries (or such entities as indicated in such balance sheet) as of its date, and each of the consolidated statements of operations, cash flows and changes in stockholders' equity included in or incorporated by reference into the Company Reports (including any related notes and schedules) fairly presents in all material respects the results of operations, cash flows or changes in stockholders' equity, as the case may be, of the Company and its Subsidiaries (or such entities as indicated in such balance sheet) for the periods set forth therein (subject, in the case of unaudited statements, to (x) such exceptions as may be permitted by Form 10-Q of the SEC and (y) normal, recurring year-end audit adjustments which are not material in the aggregate), in each case in accordance with GAAP consistently applied during the periods involved, except as may be noted therein.

(b) There are no liabilities or obligations of the Company or any of its Subsidiaries of any nature (whether accrued, absolute, contingent or otherwise) that would be required to be reflected on, or reserved against in, a consolidated balance sheet of the Company and its Subsidiaries or in the notes thereto prepared in accordance with GAAP consistently applied, other than (i) liabilities and obligations incurred in the ordinary course of business, (ii) liabilities or obligations that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect and (iii) liabilities or obligations incurred under this Agreement or in connection with the transactions contemplated hereby.

(c) Since the enactment of the Sarbanes-Oxley Act of 2002 (the **"Sarbanes-Oxley Act"**), the Company has been and is in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act. The Company has established and maintains disclosure controls and procedures and internal control over

financial reporting (as such terms are defined in paragraphs (e) and (f), respectively, of Rule 13a-15 under the Exchange Act) as required by Rule 13a-15 under the Exchange Act. The Company's disclosure controls and procedures are reasonably designed to ensure that all material information required to be disclosed by the Company in the reports that it files under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such material information is accumulated and communicated to the management of the Company as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act. The Company has disclosed, based on its most recent evaluations, to the Company's outside auditors and the audit committee of the board of directors of the Company (A) all significant deficiencies in the design or operation of its internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) and any material weaknesses that have more than a remote chance to materially adversely affect the Company's ability to record, process, summarize and report financial data and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

(d) All filings required to be made by the Company or any of its Subsidiaries with the Federal Energy Regulatory Commission (**"FERC"**) and the applicable state public utility commissions (including, to the extent required, the FPSC), as the case may be, including all reports and financial information have been made and all such filings complied, as of their respective dates, with all requirements of the applicable statutes and the rules and regulations, except for filings the failure of which to make or the failure of which to be so in compliance, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect.

SECTION 3.8 *Litigation.* There are no actions, suits, claims, arbitrations, audits, hearings, investigations, litigation, suits or proceedings (whether civil, criminal, administrative, investigative or appellate) (collectively, **"Actions"**) pending or, to the Company's knowledge, threatened, against the Company or any of its Subsidiaries or any of their respective properties, that, individually or in the aggregate, have had or are reasonably likely to have a Company Material Adverse Effect. *Section 3.8* of the Company Disclosure Schedule lists all Actions pending or, to the knowledge of the Company, threatened, against the Company or any of its Subsidiaries.

SECTION 3.9 *Absence of Certain Changes.* Since December 31, 2008, (i) there has not been a Company Material Adverse Effect and, to the knowledge of the Company, there have not been any changes, circumstances or events that, individually or in the aggregate, would reasonably be likely to have a Company Material Adverse Effect, and (ii) except for actions taken in connection with this Agreement or the transactions contemplated hereby, the Company and its Subsidiaries have conducted their respective businesses only in the ordinary course.

SECTION 3.10 *Taxes.*

(a) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, all tax returns, statements, reports, declarations, estimates and forms (**"Returns"**) required to be filed by or with respect to the Company or any of its Subsidiaries (including any Return required to be filed by an affiliated, consolidated, combined, unitary or similar group that included the Company or any of its Subsidiaries) have been properly filed on a timely basis with the appropriate Governmental Entities and all taxes that have become due (regardless of whether reflected on any Return) have been duly paid or deposited in full on a timely basis or adequately reserved for in accordance with GAAP. All such Returns filed by the Company are true, correct and complete in all material respects.

(b) (i) No audit or other administrative or court proceeding is presently pending with any Governmental Entity with regard to any tax or Return of the Company or any of its Subsidiaries as to which any taxing authority has asserted any claim; and (ii) neither the Company nor any of its Subsidiaries has any liability for any tax under Treasury Regulation Section 1.1502-6 or any similar provision of any other tax law, except for taxes of the affiliated group of which the Company or any of its Subsidiaries is the common parent, within the meaning of Section 1504(a)(1) of the Code or any similar provision of any other tax law. Neither the Company nor any of its Subsidiaries has granted any request, agreement, consent or waiver to extend any period of

limitations applicable to the assessment of any tax upon the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries is a party to any closing agreement described in Section 7121 of the Code or any predecessor provision thereof or any similar agreement under any tax law. Neither the Company nor any of its Subsidiaries is a party to, is bound by or has any obligation under any tax sharing, allocation or indemnity agreement or any similar agreement or arrangement. Since December 31, 2005, the Company has not made or rescinded any election relating to taxes or settled or compromised any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to any tax, or, except as may be required by Applicable Law, made any change to any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of its most recently filed federal Returns. The Company has not engaged in any "listed transaction" within the meaning of Treasury Regulation Section 1.6011-4. Neither the Company nor any of its Subsidiaries has been a "controlled corporation" or a "distributing corporation" in any distribution that was purported or intended to be governed by Section 355 of the Code (or any similar provision of state, local or foreign law) (i) occurring during the two-year period ending on the date hereof or (ii) that otherwise constitutes part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) that includes the Merger.

(c) No claim has ever been made by an authority in a jurisdiction where the Company or any of its Subsidiaries does not file Returns that the Company or any of its Subsidiaries is or may be subject to taxation by that jurisdiction. There are no Liens for taxes (other than taxes not yet due and payable) upon any of the assets of the Company or any of its Subsidiaries.

(d) The Company and its Subsidiaries have withheld and paid all material taxes required to have been withheld and paid in connection with any amount paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(e) *Section 3.10(e)* of the Company Disclosure Schedule lists all federal, state, local, and foreign income tax Returns filed with respect to any of the Company or its Subsidiaries for taxable periods ended on or after December 31, 2006, identifies those Returns that have been audited since December 31, 2004, and identifies those Returns that currently are the subject of audit. The Company has made available to Parent correct and complete copies of all federal income tax Returns, examination reports, and statements of deficiencies assessed or proposed to be assessed against or agreed to by the Company or any of its Subsidiaries filed or received since December 31, 2006.

(f) Neither the Company nor any of its Subsidiaries is a party to any agreement, contract, arrangement or plan that has resulted or could result, separately or in the aggregate, in the payment of any amount that will not be fully deductible as a result of Section 162(m) of the Code (or any corresponding provision of state, local or foreign tax law). Neither the Company nor any of its Subsidiaries has been a United States real property holding corporation within the meaning Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. Each of the Company and its Subsidiaries has disclosed on its federal income tax Returns all positions taken therein that could give rise to a substantial understatement of federal income tax within the meaning Section 6662 of the Code.

(g) The unpaid taxes of the Company and its Subsidiaries (i) did not, as of the most recent fiscal month end for the Company, exceed the reserve for tax liability (other than any reserve for deferred taxes established to reflect timing differences between book and tax income) set forth on the face of the most recent balance sheet of the Company (other than in any notes thereto) included in a Company Report and (ii) do not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of the Company and its Subsidiaries in filing their Returns. Since the date of the most recent balance sheet of the Company included in a Company Report, neither the Company nor any of its Subsidiaries has incurred any liability for taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the ordinary course of business consistent with past custom and practice.

SECTION 3.11 *Employee Benefit Plans.*

(a) *Section 3.11(a)* of the Company Disclosure Schedule contains a true and complete list of all Company Benefit Plans. The term **"Company Benefit Plans"** means all material employee benefit plans and other

benefit arrangements, including all material "employee benefit plans" as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (**"ERISA"**), whether or not U.S.-based plans, and all other material employee benefit, bonus, incentive, deferred compensation, stock option (or other equity-based), severance, employment, change in control, welfare (including post-retirement medical and life insurance) and fringe benefit plans, practices or agreements, whether or not subject to ERISA or U.S.-based and whether written or oral, sponsored, maintained or contributed to or required to be contributed to by the Company or any of its Subsidiaries or ERISA Affiliates, as described below, or to which the Company or any of its Subsidiaries or ERISA Affiliates is a party, is or may have any present or future liability, or is required to provide benefits under Applicable Laws. The Company has made available to Parent true and complete copies of the Company Benefit Plans (and where no such copy exists, an accurate description thereof) and, if applicable, the most recent trust agreements or other funding instruments or arrangements, the most recent Forms 5500 and attached schedules, summary plan descriptions, funding statements, the most recent audited financial statements or other annual financial reports, the most recent actuarial valuation reports and Internal Revenue Service determination and/or opinion letters, if applicable, for each such plan. The Company does not intend to, nor does the Company contemplate taking any actions to, alter, modify, freeze, terminate or otherwise amend any Company Benefit Plan, other than in the ordinary course of business consistent with past practice or except as may be required by the Applicable Laws.

(b) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, (i) all applicable reporting and disclosure requirements have been met with respect to the Company Benefit Plans; (ii) to the extent applicable, the Company Benefit Plans comply with the requirements of ERISA and the Code or with the regulations of any applicable jurisdiction, and any Company Benefit Plan intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service (or is entitled to rely upon a favorable opinion letter issued by the Internal Revenue Service) and nothing has occurred, whether by action or inaction, that could reasonably be expected to cause the loss of such tax qualification; (iii) the Company Benefit Plans have been maintained and operated in accordance with their terms and in compliance with Applicable Laws, and there are no breaches of fiduciary duty in connection with the Company Benefit Plans; (iv) there are no pending or, to the Company's knowledge, threatened claims against or otherwise involving any Company Benefit Plan, and no Action (excluding routine claims for benefits incurred in the ordinary course of Company Benefit Plan activities) has been brought against or with respect to any Company Benefit Plan; (v) all material contributions required to be made to the Company Benefit Plans have been made or provided for; (vi) with respect to any "employee pension benefit plan," as defined in Section 3(2) of ERISA, that is subject to Title IV of ERISA and has been maintained or contributed to within six years prior to the Effective Time by the Company, its Subsidiaries or any trade or business (whether or not incorporated) which is under common control, or which is treated as a single employer, with the Company or any of its Subsidiaries under Section 414(b), (c), (m) or (o) of the Code or Section 4001(b)(1) or 4001(a)(14) of ERISA (an **"ERISA Affiliate"**), (A) neither the Company nor any of its Subsidiaries or ERISA Affiliates has incurred any direct or indirect liability under Title IV of ERISA in connection with any termination thereof or withdrawal therefrom, and (B) there does not exist any accumulated funding deficiency within the meaning of, or any material liability under, Sections 412 and 4971 of the Code or Section 302 of ERISA, whether or not waived, that would reasonably be expected to be a liability of Parent or Surviving Corporation following the Effective Time. No "reportable event" (as such term is defined in Section 4043 of ERISA) has occurred with respect to any Company Benefit Plan.

(c) No Company Benefit Plan (including for such purpose, any employee benefit plan described in Section 3(3) of ERISA which the Company or any of its Subsidiaries or ERISA Affiliates maintained, sponsored or contributed to within the six-year period preceding the Effective Time) is (i) a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA), (ii) a "multiple employer plan" (within the meaning of Section 413(c) of the Code) or (iii) subject to Title IV or Section 302 of ERISA or Section 412 of the Code. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby shall cause any payment or benefit to any employee, officer or director of the Company or any of its Subsidiaries to be either subject to an excise tax or non-deductible to the Company under Sections 4999 and 280G of the Code, respectively, whether or not some other subsequent action or event would be required to cause such

payment or benefit to be triggered, and the execution of, and performance of the transactions contemplated by, this Agreement will not (either alone or upon the occurrence of any additional or subsequent event) constitute an event under any benefit plan, policy, arrangement or agreement or any trust or loan (in connection therewith) that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligations to fund benefits with respect to any employee of the Company or any Subsidiary thereof, nor will the consummation of the transactions contemplated by this Agreement limit or restrict the right to terminate any Company Benefit Plan.

SECTION 3.12 *Employment and Labor Matters.*

(a) *Section 3.12(a)* of the Company Disclosure Schedule contains a true and complete list of all collective bargaining agreements or similar contracts, agreements or understandings with a labor union or similar labor organization to which the Company or any of its Subsidiaries is a party or by which it is bound. All of the agreements listed on *Section 3.12(a)* of the Company Disclosure Schedule are fully executed and either in effect or will come into effect in 2009. The Company has made available to Parent true and complete copies of the agreements listed in *Section 3.12(a)* of the Company Disclosure Schedule. To the Company's knowledge, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened.

(b) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, neither the Company nor any of its Subsidiaries is subject to, or has experienced within the past three years, any labor dispute, strike, slowdown, work stoppage or lockout. To the knowledge of the Company, no labor dispute, strike, slowdown, work stoppage or lockout has been threatened against the Company or any of its Subsidiaries within the past three years.

(c) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, the Company is and has been in compliance with all Applicable Laws relating to employment, employment practices, terms and conditions of employment and wages and hours, including ERISA, the Code, the Immigration Reform and Control Act, the WARN Act, all laws respecting collective bargaining, employment discrimination, sexual harassment, disability rights or benefits, equal opportunity, plant closure issues, affirmative action, workers' compensation, employee benefits, severance payments, COBRA, labor relations, employee leave issues, "whistleblowers," wage and hour standards, occupational safety and health requirements and unemployment insurance and related matters, and is not engaged in any unfair labor practice.

(d) Since January 1, 2007, except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, (i) neither the Company nor any of its Subsidiaries has received any complaint, charge or grievance of any unfair labor practice or other unlawful employment practice or any claim or notice of any violation of any Applicable Law, including a "whistle-blower" claim, arising out of the employment of individuals by, or the employment practices of, the Company or any of its Subsidiaries or the work conditions or the terms and conditions of employment and wages and hours of their respective businesses, and (ii) there are no unfair labor practice complaints, charges, grievances or investigations or other employee-related complaints, charges, grievances or investigations against the Company or any of its Subsidiaries pending or, to the knowledge of the Company, threatened, before any Governmental Entity by or concerning the employees of the Company or any of its Subsidiaries. *Section 3.12(d)* of the Company Disclosure Schedule lists all unfair labor practice or other unlawful employment practice complaints, charges, grievances, investigations and other employee-related Actions pending or, to the knowledge of the Company, threatened, against the Company or any of its Subsidiaries before or by any Governmental Entity.

SECTION 3.13 *Environmental Matters.*

(a) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, (i) the Company and each of its Subsidiaries has been and is in compliance with all Environmental Laws, (ii) there have been no Environmental Claims made or, to the knowledge of the Company, threatened, against the Company or any of its Subsidiaries, and (iii) to the

knowledge of the Company, there are no past or present facts, conditions or circumstances at, on or arising out of, or otherwise associated with, any current or former businesses, assets or properties (whether owned, operated or leased) of the Company or any of its Subsidiaries which will require remediation under any Environmental Law.

(b) Without limitation of *Section 3.5(b)*, except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, (i) the Company and each of its Subsidiaries has obtained or applied for all permits, licenses and authorizations required by Environmental Laws (collectively, **"Environmental Permits"**) and necessary for the construction of their facilities, the operation of their respective businesses, as presently conducted, and for the use, storage, treatment, transportation, release, emission and disposal of Hazardous Material used or produced by or otherwise relating to its business, (ii) all such Environmental Permits are in good standing and in full force and effect or, where applicable, a renewal application has been timely filed, is pending and agency approval is expected to be obtained, and (iii) the Company and its Subsidiaries are in compliance with all terms and conditions of all such Environmental Permits.

(c) For purposes of this Agreement, the following terms shall have the following meanings:

"Environmental Claim" shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, orders, claims, liens, investigations, requests for information, proceedings, or written notices of noncompliance or violation by any person (including any Governmental Entity) alleging liability or potential liability arising out of, based on or resulting from (i) the presence, release or disposal or threatened release or disposal, of any Hazardous Material at any location, (ii) any violation or alleged violation of any Environmental Law or permit thereunder, or (iii) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from exposure to or the presence, release, or disposal or threat thereof of any Hazardous Material.

"Environmental Law" means any Applicable Law, regulation, code, license, permit, order, judgment, decree or injunction promulgated by any Governmental Entity, (i) for the protection of human health or the environment (including air, water, soil and natural resources) or (ii) regulating the use, storage, handling, release or disposal of any chemical, material, waste or hazardous substance.

"Hazardous Material" means any substance listed, defined, designated or regulated pursuant to any Environmental Law, including petroleum products and byproducts, asbestos and polychlorinated biphenyls.

SECTION 3.14 *Intellectual Property.* Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect and except as disclosed in the Company Reports filed prior to the date of this Agreement: (i) the Company and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Lien), all Intellectual Property used in or necessary for the conduct of its business as currently conducted; (ii) the use of any Intellectual Property by the Company and its Subsidiaries does not infringe on or otherwise violate the rights of any person; (iii) to the knowledge of the Company, no person is challenging, infringing on or otherwise violating any right of the Company or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to the Company or any of its Subsidiaries; and (iv) neither the Company nor any of its Subsidiaries has received any notice or otherwise has knowledge of any pending Action with respect to any Intellectual Property used by the Company or any of its Subsidiaries. For purposes of this Agreement, **"Intellectual Property"** shall mean trademarks, service marks, brand names, certification marks, trade dress and other indications of origin, the goodwill associated with the foregoing and registrations in any jurisdiction of, and applications in any jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application; inventions and discoveries, whether patentable or not, in any jurisdiction; patents, applications for patents (including divisions, continuations, continuations in part and renewal applications), and any renewals, extensions or reissues thereof, in any jurisdiction; trade secrets and confidential information and rights in any jurisdiction to limit the use or disclosure thereof by any person; writings and other works, whether copyrightable or not, in any jurisdiction, and any and all copyright rights, whether registered or not;

and registrations or applications for registration of copyrights in any jurisdiction, and any renewals or extensions thereof; moral rights, database rights, design rights, industrial property rights, publicity rights and privacy rights; and any similar intellectual property or proprietary rights.

SECTION 3.15 *Orders.* Except for such Orders that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, no judgment, decree, injunction, ruling, order, writ, fine, award, decision, subpoena or determination (collectively, **"Orders"**) of any court or other Governmental Entity or any arbitrator or other dispute resolution body is outstanding against the Company or any of its Subsidiaries. For purposes of this Agreement, **"Governmental Entity"** means any: (i) nation, state, county, city, town, village, district or jurisdiction of any nature; (ii) federal, state, local, municipal, foreign or other government; (iii) governmental or quasi-governmental authority of any nature (including any governmental agency, branch, department, official or entity and any court or other tribunal); (iv) multi-national governmental or quasi-governmental organization or body; or (v) body exercising, or entitled to exercise, any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power of any nature.

SECTION 3.16 *Insurance.* Excluding insurance policies that have expired and been replaced in the ordinary course of business, no excess liability or protection and indemnity insurance policy has been canceled by the insurer within one year prior to the date of this Agreement, and no written threat has been made to cancel (excluding cancellation upon expiration or failure to renew) any such insurance policy of the Company or any of its Subsidiaries during the period of one year prior to the date of this Agreement.

SECTION 3.17 *No Brokers.* No agent, broker, investment banker, financial advisor or other firm or person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, based upon any arrangement made by or on behalf of the Company, except Houlihan Lokey Howard & Zukin Capital, Inc. (**"Houlihan Lokey"**), the fees and expenses of which shall be paid by the Company in accordance with the Company's agreement with Houlihan Lokey, a true and complete copy of which has been provided to Parent.

SECTION 3.18 *Opinion of Financial Advisor.* The Board of Directors of the Company has received the opinion of Houlihan Lokey to the effect that, subject to various assumptions, qualifications and limitations, as of the date of the opinion the Exchange Ratio is fair, from a financial point of view, to the holders of Company Common Stock. The Company shall provide Parent (solely for informational purposes) a true and complete copy of such opinion promptly following the date of this Agreement.

SECTION 3.19 *Board Approval.* The Company's Board of Directors, by resolutions duly adopted at a meeting duly called and held, has (i) determined that this Agreement and the Merger are advisable and in the best interests of the Company and its stockholders, (ii) approved this Agreement and the Merger and (iii) recommended that the stockholders of the Company adopt this Agreement and approve the Merger and directed that this Agreement and the transactions contemplated hereby be submitted for consideration by the Company's stockholders at the Company's Stockholders Meeting.

SECTION 3.20 *Parent Stock Ownership.* Neither the Company nor any of its Subsidiaries owns any shares of capital stock of Parent or any other securities convertible into or otherwise exercisable to acquire shares of capital stock of Parent or has the right to acquire or vote such shares under any agreement, arrangement or understanding, whether or not in writing, nor does it have any agreement, arrangement or understanding, whether or not in writing, for the purpose of acquiring, holding, voting or disposing of such shares or other securities. The Company is not an "interested stockholder" (within the meaning of Section 203 of the Delaware General Corporation Law) with respect to Parent and has not, within the last three years, been an "interested stockholder" with respect to Parent.

SECTION 3.21 *Vote Required.* The affirmative vote of the holders of a majority of the outstanding shares of Company Common Stock to adopt this Agreement and approve the Merger (the **"Company Stockholder Approval"**) is the only vote of the holders of any class or series of capital stock of the Company necessary to adopt this Agreement and approve the Merger and the other transactions contemplated hereby.

SECTION 3.22 *Certain Contracts.*

(a) Except for this Agreement and except as filed as an exhibit to the Company Reports, neither the Company nor any of its Subsidiaries is a party to or bound by any "material contract" (as such term is defined in item 601(b)(10) of Regulation S-K of the SEC) (all contracts of the type described in this *Section 3.22(a)*, together with all material ordinances by, and material agreements with, municipalities pursuant to which the Company or any of its Subsidiaries has been granted a gas or electric franchise, being referred to herein as the **"Company Material Contracts"**).

(b) Each Company Material Contract is in full force and effect, and each of the Company and its Subsidiaries has performed all obligations required to be performed by it to date under each Company Material Contract to which it is a party, except where such failure to be in full force and effect or such failure to perform, individually or in the aggregate, has not had and is not reasonably likely to have a Company Material Adverse Effect. Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, neither the Company nor any of its Subsidiaries (i) knows of, or has received written notice of, any breach of or violation or default under (nor, to the knowledge of the Company, does there exist any fact, condition or circumstance which with the passage of time or the giving of notice or both would result in such a violation or default under) any Company Material Contract, or (ii) has received written notice of the desire of the other party or parties to any such Company Material Contract to exercise any rights such party has to cancel, terminate or repudiate such contract or exercise remedies thereunder.

(c) (i) All contracts, whether or not Company Material Contracts, to which the Company or any of its Subsidiaries is a party have been approved or reviewed by the FPSC to the extent such approval or review is required and (ii) all costs under any gas or electric contract to which the Company or any of its Subsidiaries is a party are currently being passed through to customers thereof.

(d) Except for such contracts, agreements and arrangements that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect, neither the Company nor any of its Subsidiaries (i) is a party to or bound by any derivative contract or instrument, or (ii) is a party to or bound by any non-competition agreement or any other agreement or arrangement that would, after the Effective Time, limit or restrict Parent or any of its Subsidiaries (including the Surviving Corporation) or any successor thereto, from engaging or competing in any line of business or in any geographic area.

SECTION 3.23 *Takeover Statutes; Rights Plans.* Assuming the accuracy of the representations of Parent in *Section 4.20* hereof, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not cause to be applicable to the Merger the restrictions on "business combinations" set forth in Sections 607.0901 and 607.0902 of the FBCA or any state anti-takeover law (a **"Takeover Statute"**). Neither the Company nor any of its Subsidiaries has any preferred share purchase rights plan or similar rights plan in effect.

SECTION 3.24 *Properties.*

(a) The Company and its Subsidiaries have, free and clear of all mortgages, deeds of trust, liens, security interests, pledges, leases, conditional sale contracts, charges, privileges, easements, rights of way, reservations, options, rights of first refusal and other encumbrances (collectively, **"Liens"**) except for Permitted Liens, title to or valid leasehold interests in the inventory, equipment and other tangible and intangible property used or held for use in the conduct of their respective businesses, in each case as necessary to permit the Company and its Subsidiaries to conduct their respective businesses as currently conducted in all material respects.

(b) Each of the Company and its Subsidiaries has complied in all material respects with the terms of all leases to which it is a party or under which it is in occupancy and all leases to which the Company or any of its Subsidiaries is a party or under which it is in occupancy are in full force and effect. Each of the Company and its Subsidiaries enjoys peaceful and undisturbed possession of the properties or assets purported to be leased under its leases, except where the failure to have such possession has not had and is not reasonably likely to have a Company Material Adverse Effect.

(c) Neither the Company nor any of its Subsidiaries has violated the terms of any easement, right-of-way, prescriptive right or way of necessity, whether or not of record (an **"Easement"**), except any such violations that, individually or in the aggregate, have not had and are not reasonably likely to have a Company Material Adverse Effect. Except as would not reasonably be likely to have a Company Material Adverse Effect, all Easements in favor of the Company or any of its Subsidiaries are valid and enforceable and grant the rights purported to be granted thereby and all rights necessary thereunder for the operation of the respective businesses of the Company and its Subsidiaries. There are no spatial gaps in the Easements in favor of the Company or any of its Subsidiaries that would reasonably be likely to have a Company Material Adverse Effect and all parts of the pipeline assets which constitute a portion of the assets of the Company or any of its Subsidiaries are located either on property which is owned in fee by the Company or one of its Subsidiaries or on property which is subject to an Easement in favor of the Company or one of its Subsidiaries. Neither the Company nor any of its Subsidiaries has received any notice from any person disputing or challenging its ownership of any fee interests or Easement, other than disputes or challenges that have not had or are not reasonably likely to have a Company Material Adverse Effect.

SECTION 3.25 *Information Supplied.* None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in (i) the Joint Proxy Statement/Prospectus to be filed by the Company and Parent with the SEC, and any amendments or supplements thereto, or (ii) the Form S-4 to be filed by Parent with the SEC in connection with the Merger, and any amendments or supplements thereto, will, at the respective times such documents are filed, and, in the case of the Joint Proxy Statement/Prospectus, at the time the Joint Proxy Statement/Prospectus or any amendment or supplement thereto is first mailed to the respective stockholders of the Company and Parent, at the time of the Company Stockholder Approval and the Parent Stockholder Approval and at the Effective Time, and, in the case of the Form S-4, when it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be made therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

SECTION 3.26 *Regulatory Proceedings.* Neither the Company nor any of its Subsidiaries all or part of whose rates or services are regulated by a Governmental Entity (i) has rates which have been or are being collected subject to refund, pending final resolution of any rate proceeding pending before a Governmental Entity or on appeal to the courts or (ii) is a party to any rate proceeding before a Governmental Entity or on appeal from Orders of a Governmental Entity which could result in Orders having a Company Material Adverse Effect. The reserves of the Company and its Subsidiaries for any pending refund(s) described above in clause (i) are set forth in the Company Reports and are properly calculated and adequate. *Section 3.26* of the Company Disclosure Schedule lists all (A) pending rate proceedings involving the Company or any of its Subsidiaries before a Governmental Entity or on appeal to the courts and identifies the status thereof, and (B) closed rate proceedings involving the Company or any of its Subsidiaries before a Governmental Entity since January 1, 2007, and the resolution thereof.

SECTION 3.27 *No Other Representations or Warranties.* Except for the representations and warranties made by the Company in this *Article 3*, neither the Company nor any other person makes any representation or warranty with respect to the Company or its Subsidiaries or their respective business, operations, assets, liabilities, condition (financial or otherwise) or prospects, notwithstanding the delivery or disclosure to Parent or any of its affiliates or representatives of any documentation, forecasts or other information with respect to any one or more of the foregoing.

SECTION 3.28 *Access to Information; Disclaimer.* The Company acknowledges and agrees that it (a) has had an opportunity to discuss the business of Parent and its Subsidiaries with the management of Parent, (b) has had reasonable access to (i) the books and records of Parent and its Subsidiaries and (ii) the electronic dataroom maintained by the Company through Bryan Cave, LLP for purposes of the transactions contemplated hereby, (c) has been afforded the opportunity to ask questions of and receive answers from officers of Parent, and (d) has conducted its own independent investigation of Parent and its Subsidiaries, their respective businesses and the transactions contemplated hereby, and has not relied on any representation, warranty or other statement by any person on behalf of Parent or any of its Subsidiaries, other than the representations and warranties of Parent expressly contained in *Article 4* and the representations and warranties

of Parent and Merger Sub expressly contained in *Article 5* and that all other representations and warranties are specifically disclaimed. Without limiting the foregoing, as part of its investigation of Parent, the Company has been given financial information, cost estimates, forecasts, projections and information, both in writing and orally, with respect to Parent by Parent or its agents and representatives. The Company acknowledges that there are uncertainties inherent in any such projections, predictions and forecasts, and the Company is familiar with such uncertainties. The Company has made its own evaluation of all such information and acknowledges that none of Parent's officers, directors, employees, affiliates, representatives and agents is making any representations or warranties with respect to such information and that neither Parent nor any of its Subsidiaries is making any representations or warranties with respect to such information except, in the case of Parent, for the specific representations made by Parent in *Article 4* and, in the case of Parent and Merger Sub, the specific representations made by Parent and Merger Sub in *Article 5*.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES OF PARENT

Except (i) as set forth in the disclosure schedule dated the date of this Agreement and delivered to the Company by Parent concurrently with the execution and delivery of this Agreement (the **"Parent Disclosure Schedule"**) and making reference to the particular section or subsection of this Agreement to which exception is being taken (*provided* that any information set forth in one section or subsection of the Parent Disclosure Schedule will be deemed to apply to each other section or subsection of the Parent Disclosure Schedule to which its relevance is reasonably apparent) or (ii) to the extent the qualifying nature of such disclosure is readily apparent therefrom, as disclosed in the Parent Reports filed on or after January 1, 2007 and prior to the date hereof, Parent represents and warrants to the Company as follows:

SECTION 4.1 *Existence; Good Standing; Corporate Authority.* Parent is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. Parent is duly qualified to do business and, to the extent such concept or a similar concept exists in the relevant jurisdiction, is in good standing under the laws of any jurisdiction in which the character of the properties owned or leased by it therein or in which the transaction of its business requires such qualification, except where the failure to be so qualified or in good standing, individually or in the aggregate, has not had and is not reasonably likely to have a Parent Material Adverse Effect. Parent has all requisite corporate power and authority to own, operate and lease its properties and to carry on its business as now conducted. The copies of the certificate of incorporation and bylaws of Parent attached to the Parent Disclosure Schedule are true and complete copies of such documents as currently in effect.

SECTION 4.2 *Authorization, Validity and Effect of Agreement.* Parent has the requisite corporate power and authority to execute and deliver this Agreement and to consummate the transactions contemplated by this Agreement, subject in the case of consummation of the Merger and the issuance of the shares of Parent Common Stock to be issued in the Merger pursuant to *Section 1.9* (the **"Share Issuance"**) to obtaining the Parent Stockholder Approval. The execution and delivery of this Agreement and the consummation by Parent of the transactions contemplated hereby have been duly authorized by all requisite corporate action on behalf of Parent, other than in the case of consummation of the Merger and the Share Issuance obtaining the Parent Stockholder Approval. Parent has duly executed and delivered this Agreement and, assuming due authorization, execution and delivery hereof by the other parties hereto, this Agreement constitutes a valid and legally binding obligation of Parent, enforceable against Parent in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to creditors' rights and general principles of equity.

SECTION 4.3 *Capitalization.* The authorized capital stock of Parent consists of 12,000,000 shares of Parent Common Stock, par value $0.4867 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share (**"Parent Preferred Stock"**), of which 200,000 shares have been designated as Series A Participating Cumulative Preferred Stock, par value $0.01 per share. As of the Cut-off Time, there were (i) 6,840,358 outstanding shares of Parent Common Stock, (ii) 1,110,392 shares of Parent Common Stock reserved for issuance upon vesting of outstanding equity awards as set forth in *Section 4.3* of the Parent Disclosure

Schedule (collectively, **"Parent Equity Awards"**), (iii) 94,711 outstanding shares of Parent Common Stock reserved for issuance upon conversion of Parent's 8.25% convertible debentures due 2014 and (iv) no outstanding shares of Parent Preferred Stock. Since the Cut-off Time, no additional shares of Parent Common Stock have been issued (other than pursuant to Parent Equity Awards which were outstanding as of the Cut-off Time and are included in the number of shares of Parent Common Stock reserved for issuance upon vesting of outstanding Parent Equity Awards in clause (ii) above), no additional Parent Equity Awards have been issued or granted, and there has been no increase in the number of shares of Parent Common Stock issuable upon exercise of the Parent Equity Awards from those issuable under such Parent Equity Awards as of the Cut-off Time. All issued and outstanding shares of Parent Common Stock are duly authorized, validly issued, fully paid, nonassessable and free of preemptive rights. There are no options, warrants, calls, subscriptions, convertible securities or other rights, agreements or commitments which obligate Parent or any of its Subsidiaries to issue, transfer, sell or register any shares of capital stock or other securities of Parent or any of its Subsidiaries other than (A) the Parent Equity Awards, which are listed on *Section 4.3* of the Parent Disclosure Schedule, (B) the Rights Agreement, dated August 20, 1999, between Parent and Computershare Trust Company, N.A (as amended to date, the **"Rights Agreement"**) and (C) the 8.25% convertible debentures due 2014. There are no outstanding obligations of Parent or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Parent or any of its Subsidiaries. Except for the Parent Equity Awards, there are no outstanding stock appreciation rights, security-based performance units, "phantom" stock or other security rights or other agreements or arrangements pursuant to which any person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance or other attribute of Parent or any of its Subsidiaries or assets or calculated in accordance therewith (other than payments or commissions to employees or agents of Parent or any of its Subsidiaries in the ordinary course of business consistent with past practices). Parent has no outstanding bonds, debentures, notes or other obligations the holders of which have the right to vote (or, other than the 8.25% convertible debentures due 2014, which are convertible into or exercisable for securities having the right to vote) with the stockholders of Parent on any matter. There are no voting trusts or other agreements or understandings to which Parent is a party with respect to the voting of capital stock of Parent.

SECTION 4.4 *Subsidiaries.* Each of Parent's Subsidiaries is a corporation or other legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Each of the Parent's Subsidiaries is duly qualified to do business and, to the extent such concept or a similar concept exists in the relevant jurisdiction, is in good standing under the laws of any jurisdiction in which the character of the properties owned or leased by it therein or in which the transaction of its business requires such qualification, except where the failure to be so qualified or in good standing, individually or in the aggregate, has not had and is not reasonably likely to have a Parent Material Adverse Effect. Each of the Parent's Subsidiaries has all requisite corporate or other entity power and authority to own, operate and lease its properties and to carry on its business as it is now conducted. Parent has made available to the Company true and complete copies of each such Subsidiary's articles or certificate of incorporation and bylaws, as currently in effect. As of the date of this Agreement, all of the outstanding shares of capital stock of, or other ownership interests in, each of Parent's Subsidiaries are duly authorized, validly issued, fully paid and nonassessable, and are owned, directly or indirectly, by Parent free and clear of all Liens (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests), except for restrictions imposed by law.

SECTION 4.5 *Compliance with Laws; Permits.* Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect:

(a) Since January 1, 2007, neither Parent nor any of its Subsidiaries has violated or received any notice of violation with respect to, any Applicable Law, and no Action is pending or, to the knowledge of Parent, threatened with respect to any such matter.

(b) Parent and its Subsidiaries hold all permits, waivers, licenses, certifications, orders, franchises, approvals, consents, qualifications and authorizations of all Governmental Entities or pursuant to any Applicable Law necessary for the lawful conduct of their respective businesses (collectively, the **"Parent Permits"**). All Parent Permits are in full force and effect. Since January 1, 2007, (i) neither Parent nor

any of its Subsidiaries has violated or received any written notice of violation with respect to any Parent Permit and (ii) to the knowledge of Parent, no Governmental Entity has taken or threatened to take any action to terminate, cancel, amend or reform any material Parent Permit.

SECTION 4.6 *No Conflict.*

(a) The execution and delivery of this Agreement by Parent does not and will not, and the consummation by Parent of the Merger and the other transactions contemplated hereby will not (i) conflict with or result in a breach or violation of any provision of the certificate or articles of incorporation or bylaws of Parent or any of its Subsidiaries; (ii) violate, conflict with, result in a breach of any provision of, constitute a default (or an event which, with notice or lapse of time or both, would constitute a default) under, result in the termination or in a right of termination or cancellation of, or result in the creation of any Lien upon any of the properties of Parent or any of its Subsidiaries under, any of the terms, conditions or provisions of any Parent Material Contract; or (iii) subject to the filings and other matters referred to in *Section 4.6(b)* and obtaining the Parent Stockholder Approval, contravene or conflict with, or constitute a violation of any provision of, or trigger any liability or obligation under, any Applicable Law, Order or Parent Permit binding upon or applicable to Parent or any of its Subsidiaries, other than, in the case of clauses (ii) and (iii), any such violations, conflicts, breaches, defaults, terminations, cancellations, liabilities, obligations, Liens or contraventions, that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect.

(b) Neither the execution and delivery of this Agreement by Parent or Merger Sub nor the consummation by either of them of the Merger and the other transactions contemplated hereby will require Parent, Merger Sub or any of Parent's Subsidiaries to obtain any consent, approval, authorization, order or declaration of, provide any notification to, or make any filing or registration with, any Governmental Entity, other than (i) filings and any approval required under the HSR Act, (ii) the filing with and, to the extent required, the declaration of effectiveness by, the SEC of (A) the Joint Proxy Statement Prospectus pursuant to the Exchange Act, (B) the S-4 and (C) reports required under the Exchange Act, (iii) such filings and approvals as may be required by any applicable state securities or "blue sky" law in connection with the transactions contemplated hereby (the **"Blue Sky Approvals"**), (iv) such filings with and approvals of the NYSE to approve and authorize for listing the shares of Parent Common Stock to be issued in the Merger pursuant to *Section 1.9* (the **"NYSE Approval"**), (v) the filing of the Articles of Merger with the Department of State of the State of Florida and the filing of appropriate documents with the relevant authorities of other states in which Parent is qualified to do business, and (vi) to the extent required, notice to and the approval of (X) the FPSC, (Y) the Delaware Public Service Commission (the **"DPSC"**) and (Z) the Maryland Public Service Commission (the **"MPSC"**), except for any consent, approval, qualification, authorization, order or declaration as to which the failure to obtain, and for any notification, filing or registration as to which the failure to make, has not had and is not reasonably likely to have a Parent Material Adverse Effect. Notifications and approvals required under or in relation to clause (vi), collectively with the Company FPSC Approval, are hereinafter referred to as the **"Utility Approvals."** Consents, approvals, authorizations, orders, declarations, notifications, filings and registrations required under or in relation to any of the foregoing clauses (i) through (vi), collectively with the Company Consents, are hereinafter referred to as the **"Specified Consents."**

(c) This Agreement, the Merger and the transactions contemplated hereby do not, and will not, upon consummation of such transactions, result in any "change of control" or similar triggering event under any (i) Parent Material Contract, (ii) Parent Benefit Plan, which, in the case of either clause (i) or (ii), gives rise to rights or benefits not otherwise available absent such change of control or similar triggering event and requires either a cash payment or an accounting charge in accordance with GAAP, or (iii) material Parent Permit.

SECTION 4.7 *SEC Documents and Compliance.*

(a) Parent and its Subsidiaries have filed with the SEC all documents (including exhibits and any amendments thereto) required to be filed by them since December 31, 2006 (each registration statement, prospectus, report, schedule, form, proxy statement, information statement or other document (other than preliminary materials) so filed, each in the form (including exhibits and any amendments thereto) filed with the SEC, collectively, the **"Parent Reports"**). No Subsidiary of Parent is required to file any form, report, registration statement or prospectus or other document with the SEC. As of its respective date, each Parent

Report (i) complied in all material respects with the applicable requirements of the Exchange Act or the Securities Act, as the case may be, and the rules and regulations thereunder and (ii) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading, except for any statements in any Parent Report that have been modified by an amendment to such report filed with the SEC prior to the date hereof. Each of the consolidated balance sheets included in or incorporated by reference into the Parent Reports (including related notes and schedules) complied as to form in all material respects with the applicable accounting requirements and the published rules and regulations of the SEC with respect thereto and fairly presents in all material respects the consolidated financial position of Parent and its Subsidiaries (or such entities as indicated in such balance sheet) as of its date, and each of the consolidated statements of operations, cash flows and changes in stockholders' equity included in or incorporated by reference into the Parent Reports (including any related notes and schedules) fairly presents in all material respects the results of operations, cash flows or changes in stockholders' equity, as the case may be, of Parent and its Subsidiaries (or such entities as indicated in such balance sheet) for the periods set forth therein (subject, in the case of unaudited statements, to (x) such exceptions as may be permitted by Form 10-Q of the SEC and (y) normal, recurring year-end audit adjustments which are not material in the aggregate), in each case in accordance with GAAP consistently applied during the periods involved, except as may be noted therein.

(b) There are no liabilities or obligations of Parent or any of its Subsidiaries of any nature (whether accrued, absolute, contingent or otherwise) that would be required to be reflected on, or reserved against in, a consolidated balance sheet of Parent and its Subsidiaries or in the notes thereto prepared in accordance with GAAP consistently applied, other than (i) liabilities and obligations incurred in the ordinary course of business, (ii) liabilities or obligations that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect and (iii) liabilities or obligations incurred under this Agreement or in connection with the transactions contemplated hereby.

(c) Since the enactment of the Sarbanes-Oxley Act, Parent has been and is in compliance in all material respects with the applicable provisions of the Sarbanes-Oxley Act. Parent has established and maintains disclosure controls and procedures and internal control over financial reporting (as such terms are defined in paragraphs (e) and (f), respectively, of Rule 13a-15 under the Exchange Act) as required by Rule 13a-15 under the Exchange Act. Parent's disclosure controls and procedures are reasonably designed to ensure that all material information required to be disclosed by Parent in the reports that it files under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that all such material information is accumulated and communicated to the management of Parent as appropriate to allow timely decisions regarding required disclosure and to make the certifications required pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act. Parent has disclosed, based on its most recent evaluations, to Parent's outside auditors and the audit committee of the board of directors of Parent (A) all significant deficiencies in the design or operation of its internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) and any material weaknesses that have more than a remote chance to materially adversely affect Parent's ability to record, process, summarize and report financial data and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in Parent's internal control over financial reporting.

(d) All filings required to be made by Parent or any of its Subsidiaries with FERC and the applicable state public utility commissions (including, to the extent required, the FPSC, DPSC and the MPSC), as the case may be, including all reports and financial information have been made and all such filings complied, as of their respective dates, with all requirements of the applicable statutes and the rules and regulations, except for filings the failure of which to make or the failure of which to be so in compliance, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect.

SECTION 4.8 *Litigation.* There are no Actions pending or, to Parent's knowledge, threatened, against Parent or any of its Subsidiaries or any of their respective properties, that, individually or in the aggregate, have had or are reasonably likely to have a Parent Material Adverse Effect. *Section 4.8* of the Parent

Disclosure Schedule lists all Actions pending or, to the knowledge of Parent, threatened, against Parent or any of its Subsidiaries.

SECTION 4.9 *Absence of Certain Changes.* Since December 31, 2008, (i) there has not been a Parent Material Adverse Effect and there have not been any changes, circumstances or events that, individually or in the aggregate, would reasonably be likely to have a Parent Material Adverse Effect, and (ii) except for actions taken in connection with this Agreement or the transactions contemplated hereby, Parent and its Subsidiaries have conducted their respective businesses only in the ordinary course.

SECTION 4.10 *Taxes.*

(a) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, all Returns required to be filed by or with respect to Parent or any of its Subsidiaries (including any Return required to be filed by an affiliated, consolidated, combined, unitary or similar group that included Parent or any of its Subsidiaries) have been properly filed on a timely basis with the appropriate Governmental Entities, and all taxes that have become due (regardless of whether reflected on any Return) have been duly paid or deposited in full on a timely basis or adequately reserved for in accordance with GAAP. All such Returns filed by Parent are true, correct and complete in all material respects.

(b) (i) No audit or other administrative or court proceeding is presently pending with any Governmental Entity with regard to any tax or Return of Parent or any of its Subsidiaries as to which any taxing authority has asserted any claim; and (ii) neither Parent nor any of its Subsidiaries has any liability for any tax under Treasury Regulation Section 1.1502-6 or any similar provision of any other tax law, except for taxes of the affiliated group of which Parent or any of its Subsidiaries is the common parent, within the meaning of Section 1504(a)(1) of the Code or any similar provision of any other tax law. Neither Parent nor any of its Subsidiaries has granted any request, agreement, consent or waiver to extend any period of limitations applicable to the assessment of any tax upon Parent or any of its Subsidiaries. Neither Parent nor any of its Subsidiaries is a party to any closing agreement described in Section 7121 of the Code or any predecessor provision thereof or any similar agreement under any tax law. Neither Parent nor any of its Subsidiaries is a party to, is bound by or has any obligation under any tax sharing, allocation or indemnity agreement or any similar agreement or arrangement. Since December 31, 2005, Parent has not made or rescinded any election relating to taxes or settled or compromised any claim, action, suit, litigation, proceeding, arbitration, investigation, audit or controversy relating to any tax, or, except as may be required by Applicable Law, made any change to any of its methods of reporting income or deductions for federal income tax purposes from those employed in the preparation of its most recently filed federal Returns. Parent has not engaged in any "listed transaction" within the meaning of Treasury Regulation Section 1.6011-4. Neither Parent nor any of its Subsidiaries has been a "controlled corporation" or a "distributing corporation" in any distribution that was purported or intended to be governed by Section 355 of the Code (or any similar provision of state, local or foreign law) (i) occurring during the two-year period ending on the date hereof or (ii) that otherwise constitutes part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) that includes the Merger.

(c) No claim has ever been made by an authority in a jurisdiction where Parent or any of its Subsidiaries does not file Returns that Parent or any of its Subsidiaries is or may be subject to taxation by that jurisdiction. There are no Liens for taxes (other than taxes not yet due and payable) upon any of the assets of Parent or any of its Subsidiaries.

(d) Parent and its Subsidiaries have withheld and paid all material taxes required to have been withheld and paid in connection with any amount paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(e) *Section 4.10(e)* of the Parent Disclosure Schedule lists all federal, state, local, and foreign income tax Returns filed with respect to any of Parent or its Subsidiaries for taxable periods ended on or after December 31, 2006, identifies those Returns that have been audited since December 31, 2004, and identifies those Returns that currently are the subject of audit. Parent has made available to the Company correct and

complete copies of all federal income tax Returns, examination reports, and statements of deficiencies assessed or proposed to be assessed against or agreed to by Parent or any of its Subsidiaries filed or received since December 31, 2006.

(f) Neither Parent nor any of its Subsidiaries is a party to any agreement, contract, arrangement or plan that has resulted or could result, separately or in the aggregate, in the payment of any amount that will not be fully deductible as a result of Section 162(m) of the Code (or any corresponding provision of state, local or foreign tax law). Neither Parent nor any of its Subsidiaries has been a United States real property holding corporation within the meaning Section 897(c)(2) of the Code during the applicable period specified in Section 897(c)(1)(A)(ii) of the Code. Each of Parent and its Subsidiaries has disclosed on its federal income tax Returns all positions taken therein that could give rise to a substantial understatement of federal income tax within the meaning Section 6662 of the Code.

(g) The unpaid taxes of Parent and its Subsidiaries (i) did not, as of the most recent fiscal month end for Parent, exceed the reserve for tax liability (other than any reserve for deferred taxes established to reflect timing differences between book and tax income) set forth on the face of the most recent balance sheet of Parent (other than in any notes thereto) included in a Parent Report and (ii) do not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of Parent and its Subsidiaries in filing their Returns. Since the date of the most recent balance sheet of Parent included in a Parent Report, neither Parent nor any of its Subsidiaries has incurred any liability for taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the ordinary course of business consistent with past custom and practice.

SECTION 4.11 *Employee Benefit Plans.*

(a) *Section 4.11(a)* of the Parent Disclosure Schedule contains a true and complete list of all Parent Benefit Plans. The term **"Parent Benefit Plans"** means all material employee benefit plans and other benefit arrangements, including all material "employee benefit plans" as defined in Section 3(3) of ERISA, whether or not U.S.-based plans, and all other material employee benefit, bonus, incentive, deferred compensation, stock option (or other equity-based), severance, employment, change in control, welfare (including post-retirement medical and life insurance) and fringe benefit plans, practices or agreements, whether or not subject to ERISA or U.S.-based and whether written or oral, sponsored, maintained or contributed to or required to be contributed to by Parent or any of its Subsidiaries or ERISA Affiliates, as described below, or to which Parent or any of its Subsidiaries or ERISA Affiliates is a party, is or may have any present or future liability, or is required to provide benefits under Applicable Laws. Parent has made available to the Company true and complete copies of the Parent Benefit Plans (and where no such copy exists, an accurate description thereof) and, if applicable, the most recent trust agreements or other funding instruments or arrangements, the most recent Forms 5500 and attached schedules, summary plan descriptions, funding statements, the most recent audited financial statements or other annual financial reports, the most recent actuarial valuation reports and Internal Revenue Service determination and/or opinion letters, if applicable, for each such plan. Parent does not intend to, nor does Parent contemplate taking any actions to, alter, modify, freeze, terminate or otherwise amend any Parent Benefit Plan prior to Closing, other than in the ordinary course of business consistent with past practice or except as may be required by the Applicable Laws.

(b) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, (i) all applicable reporting and disclosure requirements have been met with respect to the Parent Benefit Plans; (ii) to the extent applicable, the Parent Benefit Plans comply with the requirements of ERISA and the Code or with the regulations of any applicable jurisdiction, and any Parent Benefit Plan intended to be qualified under Section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service (or is entitled to rely upon a favorable opinion letter issued by the Internal Revenue Service) and nothing has occurred, whether by action or inaction, that could reasonably be expected to cause the loss of such tax qualification; (iii) the Parent Benefit Plans have been maintained and operated in accordance with their terms and in compliance with Applicable Laws, and there are no breaches of fiduciary duty in connection with the Parent Benefit Plans; (iv) there are no pending or, to Parent's knowledge, threatened claims against or otherwise involving any Parent Benefit Plan, and no Action

(excluding routine claims for benefits incurred in the ordinary course of Parent Benefit Plan activities) has been brought against or with respect to any Parent Benefit Plan; (v) all material contributions required to be made to the Parent Benefit Plans have been made or provided for; (vi) with respect to any "employee pension benefit plan," as defined in Section 3(2) of ERISA, that is subject to Title IV of ERISA and has been maintained or contributed to within six years prior to the Effective Time by Parent, its Subsidiaries or any trade or business (whether or not incorporated) which is under common control, or which is treated as a single employer, with Parent or any of its Subsidiaries under Section 414(b), (c), (m) or (o) of the Code or Section 4001(b)(1) or 4001(a)(14) of ERISA, neither Parent nor any of its Subsidiaries or ERISA Affiliates has incurred any direct or indirect liability under Title IV of ERISA in connection with any termination thereof or withdrawal therefrom. No "reportable event" (as such term is defined in Section 4043 of ERISA) has occurred with respect to any Parent Benefit Plan.

(c) No Parent Benefit Plan (including for such purpose, any employee benefit plan described in Section 3(3) of ERISA which Parent or any of its Subsidiaries or ERISA Affiliates maintained, sponsored or contributed to within the six-year period preceding the Effective Time) is (i) a "multiemployer plan" (as defined in Section 4001(a)(3) of ERISA), (ii) a "multiple employer plan" (within the meaning of Section 413(c) of the Code) or (iii) subject to Title IV or Section 302 of ERISA or Section 412 of the Code. Neither the execution of this Agreement nor the consummation of the transactions contemplated hereby shall cause any payment or benefit to any employee, officer or director of Parent or any of its Subsidiaries to be either subject to an excise tax or non-deductible to Parent under Sections 4999 and 280G of the Code, respectively, whether or not some other subsequent action or event would be required to cause such payment or benefit to be triggered, and the execution of, and performance of the transactions contemplated by, this Agreement will not (either alone or upon the occurrence of any additional or subsequent event) constitute an event under any benefit plan, policy, arrangement or agreement or any trust or loan (in connection therewith) that will or may result in any payment (whether of severance pay or otherwise), acceleration, forgiveness of indebtedness, vesting, distribution, increase in benefits or obligations to fund benefits with respect to any employee of Parent or any Subsidiary thereof, nor will the consummation of the transactions contemplated by this Agreement limit or restrict the right to terminate any Parent Benefit Plan.

SECTION 4.12 *Employment and Labor Matters.*

(a) Neither Parent nor any of its Subsidiaries is a party to, or bound by, any collective bargaining agreement or similar contract, agreement or understanding with a labor union or similar labor organization. To Parent's knowledge, there are no organizational efforts with respect to the formation of a collective bargaining unit presently being made or threatened.

(b) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, neither Parent nor any of its Subsidiaries is subject to, or has experienced within the past three years, any labor dispute, strike, slowdown, work stoppage or lockout. To the knowledge of Parent, no labor dispute, strike, slowdown, work stoppage or lockout has been threatened against Parent or any of its Subsidiaries within the past three years.

(c) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, Parent is and has been in compliance with all Applicable Laws relating to employment, employment practices, terms and conditions of employment and wages and hours, including ERISA, the Code, the Immigration Reform and Control Act, the WARN Act, all laws respecting collective bargaining, employment discrimination, sexual harassment, disability rights or benefits, equal opportunity, plant closure issues, affirmative action, workers' compensation, employee benefits, severance payments, COBRA, labor relations, employee leave issues, "whistleblowers," wage and hour standards, occupational safety and health requirements and unemployment insurance and related matters, and is not engaged in any unfair labor practice.

(d) Since January 1, 2007, except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, (i) neither Parent nor any of its Subsidiaries has received any complaint, charge or grievance of any unfair labor practice or other unlawful employment practice or any claim or notice of any violation of any Applicable Law, including a

"whistleblower" claim, arising out of the employment of individuals by, or the employment practices of, Parent or any of its Subsidiaries or the work conditions or the terms and conditions of employment and wages and hours of their respective businesses, and (ii) there are no unfair labor practice complaints, charges, grievances or investigations or other employee-related complaints, charges, grievances or investigations against Parent or any of its Subsidiaries pending or, to the knowledge of Parent, threatened, before any Governmental Entity by or concerning the employees of Parent or any of its Subsidiaries. *Section 4.12(d)* of the Parent Disclosure Schedule lists all unfair labor practice or other unlawful employment practice complaints, charges, grievances, investigations and other employee-related Actions pending or, to the knowledge of Parent, threatened, against Parent or any of its Subsidiaries before or by any Governmental Entity.

SECTION 4.13 *Environmental Matters.*

(a) Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, (i) Parent and each of its Subsidiaries has been and is in compliance with all Environmental Laws, (ii) there have been no Environmental Claims made or, to the knowledge of Parent, threatened, against Parent or any of its Subsidiaries, and (iii) to the knowledge of Parent, there are no past or present facts, conditions or circumstances at, on or arising out of, or otherwise associated with, any current or former businesses, assets or properties (whether owned, operated or leased) of Parent or any of its Subsidiaries which will require remediation under any Environmental Law.

(b) Without limitation of *Section 4.5(b),* except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, (i) Parent and each of its Subsidiaries has obtained or applied for all Environmental Permits necessary for the construction of their facilities, the operation of their respective businesses, as presently conducted, and for the use, storage, treatment, transportation, release, emission and disposal of Hazardous Material used or produced by or otherwise relating to its business, (ii) all such Environmental Permits are in good standing and in full force and effect or, where applicable, a renewal application has been timely filed, is pending and agency approval is expected to be obtained, and (iii) Parent and its Subsidiaries are in compliance with all terms and conditions of all such Environmental Permits.

SECTION 4.14 *Intellectual Property.* Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect and except as disclosed in the Parent Reports filed prior to the date of this Agreement: (i) Parent and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Lien), all Intellectual Property used in or necessary for the conduct of its business as currently conducted; (ii) the use of any Intellectual Property by Parent and its Subsidiaries does not infringe on or otherwise violate the rights of any person; (iii) to the knowledge of Parent, no person is challenging, infringing on or otherwise violating any right of Parent or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to the Company or any of its Subsidiaries; and (iv) neither Parent nor any of its Subsidiaries has received any notice or otherwise has knowledge of any pending Action with respect to any Intellectual Property used by Parent or any of its Subsidiaries.

SECTION 4.15 *Orders.* Except for such Orders that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, no Order of any court or other Governmental Entity or any arbitrator or other dispute resolution body is outstanding against Parent or any of its Subsidiaries.

SECTION 4.16 *Insurance.* Excluding insurance policies that have expired and been replaced in the ordinary course of business, no excess liability or protection and indemnity insurance policy has been canceled by the insurer within one year prior to the date of this Agreement, and no written threat has been made to cancel (excluding cancellation upon expiration or failure to renew) any such insurance policy of Parent or any of its Subsidiaries during the period of one year prior to the date of this Agreement.

SECTION 4.17 *No Brokers.* No agent, broker, investment banker, financial advisor or other firm or person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with the negotiations leading to this Agreement or the consummation of the transactions contemplated hereby, based upon any arrangement made by or on behalf of Parent, except Robert W. Baird &

Co. Incorporated (**"Baird"**), the fees and expenses of which shall be paid by Parent in accordance with Parent's agreement with Baird, a true and complete copy of which has been provided to the Company.

SECTION 4.18 *Opinion of Financial Advisor.* The Board of Directors of Parent has received the opinion of Baird to the effect that, subject to various assumptions, qualifications and limitations, as of the date of the opinion the Exchange Ratio is fair, from a financial point of view, to Parent. Parent shall provide the Company (solely for informational purposes) a true and complete copy of such opinion promptly following the date of this Agreement.

SECTION 4.19 *Board Approval.* Parent's Board of Directors, by resolutions duly adopted at a meeting duly called and held, has (i) determined that this Agreement and the Merger are advisable and in the best interests of Parent and its stockholders, (ii) approved this Agreement, the Merger and the Share Issuance and (iii) recommended that the stockholders of Parent adopt this Agreement and approve the Merger and the Share Issuance and directed that this Agreement and the Share Issuance be submitted for consideration by Parent's stockholders at the Parent's Stockholders Meeting.

SECTION 4.20 *Company Stock Ownership.* Neither Parent nor any of its Subsidiaries owns any shares of capital stock of the Company or any other securities convertible into or otherwise exercisable to acquire shares of capital stock of the Company or has the right to acquire or vote such shares under any agreement, arrangement or understanding, whether or not in writing, nor does it have any agreement, arrangement or understanding, whether or not in writing, for the purpose of acquiring, holding, voting or disposing of such shares or other securities. Parent is not an "interested stockholder" (within the meaning of Section 607.0901 of the FBCA) with respect to the Company and Parent has not, within the last three years, been an "interested stockholder" with respect to the Company.

SECTION 4.21 *Vote Required.* The affirmative vote of the holders of a majority of the outstanding shares of Parent Common Stock to adopt this Agreement and approve the Merger and the Share Issuance (the **"Parent Stockholder Approval"**) is the only vote of the holders of any class or series of Parent capital stock necessary to adopt this Agreement and approve the Merger and the Share Issuance.

SECTION 4.22 *Certain Contracts.*

(a) Except for this Agreement and except as filed as an exhibit to the Parent Reports, neither Parent nor any of its Subsidiaries is a party to or bound by any "material contract" (as such term is defined in item 601(b)(10) of Regulation S-K of the SEC) (all contracts of the type described in this *Section 4.22(a)*, together with all material ordinances by, and material agreements with, municipalities pursuant to which Parent or any of its Subsidiaries has been granted a gas franchise, being referred to herein as the **"Parent Material Contracts"**).

(b) Each Parent Material Contract is in full force and effect, and each of Parent and its Subsidiaries has performed all obligations required to be performed by it to date under each Parent Material Contract to which it is a party, except where such failure to be in full force and effect or such failure to perform, individually or in the aggregate, has not had and is not reasonably likely to have a Parent Material Adverse Effect. Except for such matters that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, neither Parent nor any of its Subsidiaries (i) knows of, or has received written notice of, any breach of or violation or default under (nor, to the knowledge of Parent, does there exist any fact, condition or circumstance which with the passage of time or the giving of notice or both would result in such a violation or default under) any Parent Material Contract, or (ii) has received written notice of the desire of the other party or parties to any such Parent Material Contract to exercise any rights such party has to cancel, terminate or repudiate such contract or exercise remedies thereunder.

(c) (i) All contracts, whether or not Parent Material Contracts, to which Parent or any of its Subsidiaries is a party have been approved or reviewed by the DPSC, MPSC or FPSC, as applicable, to the extent such approval or review is required and (ii) all costs under any gas contract to which Parent or any of its Subsidiaries is a party are currently being passed through to customers thereof.

(d) Except for such contracts, agreements and arrangements that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect, neither Parent nor any of its Subsidiaries (i) is a party to or bound by any derivative contract or instrument, or (ii) is a party to or bound by any non-competition agreement or any other agreement or arrangement that would, after the Effective Time, limit or restrict Parent or any of its Subsidiaries (including the Surviving Corporation) or any successor thereto, from engaging or competing in any line of business or in any geographic area.

SECTION 4.23 *Takeover Statutes; Rights Plans.* Assuming the accuracy of the representations of the Company in *Section 3.20* hereof, the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not cause to be applicable to the Merger the restrictions on "business combinations" set forth in Section 203 of the Delaware General Corporation Law. Except for the Rights Agreement, neither Parent nor any of its Subsidiaries has any preferred share purchase rights plan or similar rights plan in effect.

SECTION 4.24 *Properties.*

(a) Parent and its Subsidiaries have, free and clear of all Liens except for Permitted Liens, title to or valid leasehold interests in, the inventory, equipment and other tangible and intangible property used or held for use in the conduct of their respective businesses, in each case as necessary to permit Parent and its Subsidiaries to conduct their respective businesses as currently conducted in all material respects.

(b) Each of Parent and its Subsidiaries has complied in all material respects with the terms of all leases to which it is a party or under which it is in occupancy and all leases to which Parent or any of its Subsidiaries is a party or under which it is in occupancy are in full force and effect. Each of Parent and its Subsidiaries enjoys peaceful and undisturbed possession of the properties or assets purported to be leased under its leases, except where the failure to have such possession has not had and is not reasonably likely to have a Parent Material Adverse Effect.

(c) Neither Parent nor any of its Subsidiaries has violated the terms of any Easement, except any such violations that, individually or in the aggregate, have not had and are not reasonably likely to have a Parent Material Adverse Effect. Except as would not reasonably be likely to have a Parent Material Adverse Effect, all Easements in favor of Parent or any of its Subsidiaries are valid and enforceable and grant the rights purported to be granted thereby and all rights necessary thereunder for the operation of the respective businesses of Parent and its Subsidiaries. There are no spatial gaps in the Easements in favor of Parent or any of its Subsidiaries that would reasonably be likely to have a Parent Material Adverse Effect and all parts of the pipeline assets which constitute a portion of the assets of Parent or any of its Subsidiaries are located either on property which is owned in fee by Parent or one of its Subsidiaries or on property which is subject to an Easement in favor of Parent or one of its Subsidiaries. Neither Parent nor any of its Subsidiaries has received any notice from any person disputing or challenging its ownership of any fee interests or Easement, other than disputes or challenges that have not had or are not reasonably likely to have a Parent Material Adverse Effect.

SECTION 4.25 *Information Supplied.* None of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in (i) the Joint Proxy Statement/Prospectus to be filed by the Company and Parent with the SEC, and any amendments or supplements thereto, or (ii) the Form S-4 to be filed by Parent with the SEC in connection with the Merger, and any amendments or supplements thereto, will, at the respective times such documents are filed, and, in the case of the Joint Proxy Statement/Prospectus, at the time the Joint Proxy Statement/Prospectus or any amendment or supplement thereto is first mailed to the respective stockholders of the Company and Parent, at the time of the Company Stockholder Approval and the Parent Stockholder Approval and at the Effective Time, and, in the case of the Form S-4, when it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be made therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

SECTION 4.26 *Regulatory Proceedings.* Neither Parent nor any of its Subsidiaries all or part of whose rates or services are regulated by a Governmental Entity (i) has rates which have been or are being collected

subject to refund, pending final resolution of any rate proceeding pending before a Governmental Entity or on appeal to the courts or (ii) is a party to any rate proceeding before a Governmental Entity or on appeal from Orders of a Governmental Entity which could result in Orders having a Parent Material Adverse Effect. The reserves of Parent and its Subsidiaries for any pending refund(s) described above in clause (i) are set forth in the Parent Reports and are properly calculated and adequate. *Section 4.26* of the Parent Disclosure Schedule lists all (A) pending rate proceedings involving Parent or any of its Subsidiaries before a Governmental Entity or on appeal to the courts and identifies the status thereof, and (B) closed rate proceedings involving Parent or any of its Subsidiaries before a Governmental Entity since January 1, 2007, and the resolution thereof.

SECTION 4.27 *No Other Representations or Warranties.* Except for the representations and warranties made by Parent in this *Article 4* and by Parent and Merger Sub in *Article 5*, neither Parent, Merger Sub nor any other person makes any representation or warranty with respect to the Parent or its Subsidiaries or their respective business, operations, assets, liabilities, condition (financial or otherwise) or prospects, notwithstanding the delivery or disclosure to the Company or any of its affiliates or representatives of any documentation, forecasts or other information with respect to any one or more of the foregoing.

SECTION 4.28 *Access to Information; Disclaimer.* Parent and Merger Sub each acknowledges and agrees that it (a) has had an opportunity to discuss the business of the Company and its Subsidiaries with the management of the Company, (b) has had reasonable access to (i) the books and records of the Company and its Subsidiaries and (ii) the electronic dataroom maintained by the Company through Bryan Cave, LLP for purposes of the transactions contemplated hereby, (c) has been afforded the opportunity to ask questions of and receive answers from officers of the Company, and (d) has conducted its own independent investigation of the Company and its Subsidiaries, their respective businesses and the transactions contemplated hereby, and has not relied on any representation, warranty or other statement by any person on behalf of the Company or any of its Subsidiaries, other than the representations and warranties of the Company expressly contained in *Article 3* of this Agreement and that all other representations and warranties are specifically disclaimed. Without limiting the foregoing, as part of its investigation of the Company, Parent has been given financial information, cost estimates, forecasts, projections and information, both in writing and orally, with respect to the Company by the Company or its agents and representatives. Parent acknowledges that there are uncertainties inherent in any such projections, predictions and forecasts, and Parent is familiar with such uncertainties. Parent has made its own evaluation of all such information and acknowledges that none of the Company's officers, directors, employees, affiliates, representatives and agents is making any representations or warranties with respect to such information and that neither Company nor any of its Subsidiaries is making any representations or warranties with respect to such information except, in the case of the Company, for the specific representations and warranties set forth in *Article 3*.

ARTICLE 5

REPRESENTATIONS AND WARRANTIES OF PARENT AND MERGER SUB

Parent and Merger Sub represent and warrant to the Company as follows:

SECTION 5.1 *Organization.* Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Florida. Merger Sub is a wholly owned Subsidiary of Parent.

SECTION 5.2 *Corporate Authorization.* Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Sub. This Agreement has been duly executed and delivered by Merger Sub and constitutes a valid and binding agreement of Merger Sub, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to creditors' rights and general principles of equity.

SECTION 5.3 *Non-Contravention.* The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby do not and will not contravene or conflict with the articles of incorporation or bylaws of Merger Sub.

SECTION 5.4 *No Business Activities.* Merger Sub has not conducted any activities other than in connection with the organization of Merger Sub, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Sub has no Subsidiaries.

ARTICLE 6

COVENANTS RELATING TO CONDUCT OF BUSINESS

SECTION 6.1 *Covenants of Parent.* During the period from the date of this Agreement and continuing until the Effective Time, Parent agrees as to itself and its Subsidiaries that (except as expressly permitted or required by this Agreement (including pursuant to the Parent Share Repurchase) or the Parent Disclosure Schedule or as required by Applicable Laws or to the extent that the Company shall otherwise consent in writing):

(a) *Ordinary Course.* Parent and its Subsidiaries shall carry on their respective businesses in the ordinary course consistent with past practices in all material respects, and shall use commercially reasonable efforts to preserve intact their business, maintain their rights and franchises and preserve their relationships with customers, suppliers and others having business dealings with them.

(b) *Dividends; Changes in Share Capital.* Parent shall not (i) declare or pay any dividends or distributions on or make other distributions in respect of any of its capital stock, except the declaration and payment of regular quarterly cash dividends in amounts consistent with past practice (subject to normal increases consistent with past practice) with usual record and payment dates for such dividends in accordance with past dividend practice, or (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock.

(c) *Governing Documents.* Parent and Merger Sub shall not amend or propose to so amend the certificate of incorporation or bylaws of Parent (other than amendments related to the composition or structure of the Board of Directors of Parent or committees thereof or other governance-related matters) or the articles of incorporation or bylaws of Merger Sub.

(d) *No Acquisitions.* Other than acquisitions for cash in existing or related lines of business of Parent and its Subsidiaries, the fair market value of the total consideration (including the value of indebtedness acquired or assumed) for which does not exceed $15 million individually or in the aggregate, Parent shall not, and shall not permit any of its Subsidiaries to, (i) acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business (including by acquisition of assets) or any corporation, partnership, association or other business organization or division thereof or (ii) acquire or agree to acquire, directly or indirectly, any assets or securities that would require a filing or approval under the HSR Act.

(e) *No Dispositions.* Parent shall not, and shall not permit any of its Subsidiaries to, sell, lease, license, encumber or otherwise dispose of, or enter into a contract to sell, lease, license, encumber or otherwise dispose of, any of its assets (including capital stock of its Subsidiaries) which are, individually or in the aggregate, material to it and its Subsidiaries as a whole, except for (i) sales of surplus or obsolete equipment, (ii) sales of other assets in the ordinary course of business or sales of assets pursuant to contractual rights existing as of the date of this Agreement that were entered into the ordinary course of business consistent with past practices, (iii) sales, leases or other transfers between Parent and its wholly owned Subsidiaries or between those Subsidiaries, (iv) sales, dispositions or divestitures as may be required by or in conformance with Applicable Laws in order to permit or facilitate the consummation of the transactions contemplated by this Agreement in accordance with *Section 7.4(c),* or (v) arm's-length

sales or other transfers not described in clauses (i) through (iv) above for aggregate consideration not exceeding $10 million.

(f) *Investments; Indebtedness.* Parent shall not, and shall not permit any of its Subsidiaries to, (i) make any loans, advances or capital contributions to, or investments in, any other person, other than (A) by Parent or any of its Subsidiaries to or in Parent or any of its Subsidiaries, (B) pursuant to any contract or other legal obligation of Parent or any of its Subsidiaries existing at the date of this Agreement or (C) in the ordinary course of business consistent with past practice, or (ii) create, incur, assume or suffer to exist any indebtedness, issuance of debt securities, guarantee, loan or advance not in existence as of the date of this Agreement, provided that Parent and its Subsidiaries may (y) refinance any indebtedness existing as of the date hereof in an amount not exceeding the principal amount of such indebtedness as of the date hereof and (z) incur additional indebtedness or increases in existing indebtedness (and issue guarantees in connection therewith) in an aggregate amount not to exceed $40,000,000.

(g) *Accounting Methods.* Except as disclosed in Parent Reports filed prior to the date of this Agreement, or as required by a Governmental Entity, Parent shall not change its methods of accounting, except (i) as required by changes in GAAP as concurred in by Parent's independent public accountants (including the right to early-adopt such required changes), or (ii) as permitted by GAAP and which change would not reasonably be likely to have a Parent Material Adverse Effect.

(h) *Settlement of Litigation.* To the extent permitted by Applicable Law, neither Parent nor Merger Sub shall settle or compromise any material Action which would be reasonably likely to have a Parent Material Adverse Effect that is not pending as of the date hereof and is not related to any Action so pending, or enter into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any material Action which would be reasonably likely to have a Parent Material Adverse Effect that is not pending as of the date hereof and is not related to any Action so pending, except with the prior consent of the Company, which consent shall not be unreasonably withheld or delayed.

(i) *No Related Actions.* Parent shall not, and shall not permit any of its Subsidiaries to, agree or commit to do any of the foregoing.

Notwithstanding the foregoing, prior to the Closing Date, Parent and/or one or more of its affiliates may acquire, without limitation, shares of Parent Common Stock through open market transactions, block trades or other means (the **"Parent Share Repurchase"**).

SECTION 6.2 *Covenants of the Company.* During the period from the date of this Agreement and continuing until the Effective Time, the Company agrees as to itself and its Subsidiaries that (except as expressly permitted or required by this Agreement or the Company Disclosure Schedule or as required by Applicable Laws or to the extent that Parent shall otherwise consent in writing):

(a) *Ordinary Course.*

(i) The Company and its Subsidiaries shall carry on their respective businesses in the ordinary course consistent with past practice in all material respects, and shall use commercially reasonable efforts to preserve intact their business and goodwill, maintain their rights and franchises, keep available the services of their respective officers and employees (and shall not, under any circumstances, take or fail to take any action that would cause the Company to incur any liability for, or obligation to pay, severance, termination or other similar payments to any employee or former employee under any Company Material Contract), and preserve their relationships with customers, suppliers and others having business dealings with them.

(ii) The Company shall not, and shall not permit any of its Subsidiaries to, incur or commit to any capital expenditures or any obligations or liabilities in connection therewith in fiscal year 2009 of the Company other than capital expenditures and obligations or liabilities incurred or committed to in an amount not greater, in the aggregate, than 105% of the amount of the Company's total budget for such expenditures and obligations or liabilities for its fiscal year 2009 approved by the

Board of Directors of the Company on December 11, 2008, which has been furnished to Parent prior to the date of this Agreement.

(b) *Dividends; Changes in Share Capital.* The Company shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (i) declare, set aside or pay any dividends on or make other distributions in respect of any of its capital stock, except the declaration and payment of regular quarterly cash dividends in amounts consistent with past practice (subject to normal increases consistent with past practice) with usual record and payment dates for such dividends in accordance with past dividend practice, (ii) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of the Company which remains a wholly owned Subsidiary after consummation of such transaction, or (iii) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock, except for the redemption required by *Section 7.20.*

(c) *Issuance of Securities.* The Company shall not, and shall not permit any of its Subsidiaries to, issue, deliver, sell or grant, or authorize or propose the issuance, delivery, sale or grant of, any shares of its capital stock of any class, or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing, other than pursuant to, and consistent with past practice under, any contract or other legal obligation of the Company or any of its Subsidiaries existing at the date of this Agreement and set forth in *Section 6.2(c)* of the Company Disclosure Schedule, subject in the case of the Company's Employee Stock Purchase Plan to *Section 7.16(c)(ii).*

(d) *Governing Documents.* The Company shall not amend or propose to amend its articles of incorporation or bylaws.

(e) *No Acquisitions.* The Company shall not, and shall not permit any of its Subsidiaries to, (i) acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business (including by acquisition of assets) or any corporation, partnership, association or other business organization or division thereof or (ii) acquire or agree to acquire, directly or indirectly, any assets or securities that would require a filing or approval under the HSR Act.

(f) *No Dispositions.* The Company shall not, and shall not permit any of its Subsidiaries to, sell, lease, license, encumber or otherwise dispose of, or enter into a contract to sell, lease, license, encumber or otherwise dispose of, any of its assets (including capital stock of its Subsidiaries) which are, individually or in the aggregate, material to it and its Subsidiaries as a whole, except for (i) sales of surplus or obsolete equipment, (ii) sales of other assets in the ordinary course of business or sales of assets pursuant to contractual rights existing as of the date of this Agreement that were entered into the ordinary course of business consistent with past practices, (iii) sales, leases or other transfers between the Company and its wholly owned Subsidiaries or between those Subsidiaries, (iv) sales, dispositions or divestitures as may be required by or in conformance with Applicable Laws in order to permit or facilitate the consummation of the transactions contemplated by this Agreement in accordance with *Section 7.4(c),* or (v) arm's-length sales or other transfers not described in clauses (i) through (iii) above for aggregate consideration not exceeding $100,000.

(g) *Investments; Indebtedness.* The Company shall not, and shall not permit any of its Subsidiaries to, (i) make any loans, advances or capital contributions to, or investments in, any other person, other than (x) by the Company or any of its Subsidiaries to or in the Company or any of its Subsidiaries, (y) pursuant to any contract or other legal obligation of the Company or any of its Subsidiaries existing at the date of this Agreement or (z) in the ordinary course of business consistent with past practice, or (ii) create, incur, assume or suffer to exist any indebtedness, issuance of debt securities, guarantee, loan or advance not in existence as of the date of this Agreement, except that the Company shall be permitted to make draws upon its existing line of credit in the ordinary course of business consistent with past practices.

(h) *Compensation; Employee Benefits.* The Company shall not (i) enter into any new, or amend any existing, employment, severance, consulting or salary continuation agreement with or for the benefit of any former, present or future officer, director or employee of the Company or any of its Subsidiaries, (ii) grant any increase in the compensation, bonuses or benefits to any former, present or future officer, director or employee of the Company or any of its Subsidiaries (other than normal compensation increases to persons who are not non-employee directors in the ordinary course of business consistent with past practices), (iii) make any increase in or commitment to increase any employee benefits, (iv) adopt or make any commitment to adopt any additional employee benefit plan or (v) make any contribution, other than regularly scheduled contributions, to any Company Benefit Plan; except (A) in each case, as required by this Agreement (including as required by *Section 7.16(c)(i)*) and (B) in the case of clauses (iii) through (v), in the ordinary course of business consistent with past practice or as required by an existing agreement or Company Benefit Plan made available to Parent.

(i) *Accounting Methods; Income Tax Matters.* The Company shall not change its methods of accounting, except (i) as required by changes in GAAP as concurred in by the Company's independent public accountants (including the right to early-adopt such required changes) or (ii) as permitted by GAAP and which change would not reasonably be likely to have a Company Material Adverse Effect. The Company shall not (A) change its fiscal year, (B) make or change any material tax election, or (C) settle or compromise any material tax liability or material claim for refund, (D) consent to any extension or waiver of the limitation period applicable to any material tax, or (E) change in any material respect any of its methods of reporting any item for tax purposes from those employed in the preparation of its tax Returns for the most recent taxable year for which a Return has been filed, except as may be required by Applicable Law. The Company shall provide Parent with a copy of its federal tax return for 2008 five business days prior to filing such return.

(j) *Insurance Policies.* The Company shall, and shall cause each of its Subsidiaries to, use commercially reasonable efforts to maintain in full force without interruption its present insurance policies or comparable insurance coverage.

(k) *Certain Agreements.* Except in the ordinary course of business, the Company shall not, and shall not permit any of its Subsidiaries to, enter into any agreement or arrangement that limits or otherwise restricts the Company or any of its Subsidiaries or any successor thereto, or that, after the Effective Time, limits or restricts Parent or any of its Subsidiaries (including the Surviving Corporation) or any successor thereto, from (i) engaging or competing in any line of business or (ii) engaging in any business or competing in any geographic area.

(l) *Settlement of Litigation.*

(i) The Company shall not settle or compromise any material Action related to the Company's West Palm Beach site that is pending as of the date hereof, or enter into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any such Action, except with the prior consent of Parent, which consent shall not be unreasonably withheld or delayed. Prior to settling or compromising any other material Action pending as of the date hereof, or entering into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any other material Action pending as of the date hereof, the Company shall consult with, and consider in good faith the view of Parent.

(ii) To the extent permitted by Applicable Law, the Company shall not settle or compromise any Action which would be reasonably likely to have a Company Material Adverse Effect that is not pending as of the date hereof and is not related to any Action so pending, or enter into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any Action which would be reasonably likely to have a Company Material Adverse Effect that is not pending as of the date hereof and is not related to any Action so pending, except with the prior consent of Parent, which consent shall not be unreasonably withheld or delayed.

(m) *Purchase of Capital Stock of the Company or Parent.* The Company shall not, and shall cause its Subsidiaries not to, purchase or otherwise acquire any shares of capital stock of the Company or Parent.

(n) *Labor Matters.* The Company shall not enter into any new, or amend any existing, collective bargaining agreement or similar binding contract, agreement or understanding with a labor union or similar labor organization without consulting with Parent prior thereto.

(o) *No Related Actions.* The Company shall not, and shall not permit any of its Subsidiaries to, agree or commit to any of the foregoing.

SECTION 6.3 *Governmental Filings.* The Company and Parent shall file all reports required to be filed by each of them with the SEC and all other Governmental Entities between the date of this Agreement and the Effective Time and shall (to the extent permitted by Applicable Law or any applicable confidentiality agreement) deliver to the other party copies of all such reports, announcements and publications promptly after the same are filed.

SECTION 6.4 *Control of Other Party's Business.* Nothing contained in this Agreement shall give the Company, directly or indirectly, the right to control or direct Parent's operations prior to the Effective Time. Nothing contained in this Agreement shall give Parent, directly or indirectly, the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, each of the Company and Parent shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

ARTICLE 7

ADDITIONAL AGREEMENTS

SECTION 7.1 *Joint Proxy Statement/Prospectus and Form S-4.* As promptly as reasonably practicable following the date hereof, Parent and the Company shall prepare and file with the SEC mutually acceptable proxy materials which shall constitute the Joint Proxy Statement/Prospectus (such joint proxy statement/prospectus, and any amendments or supplements thereto, the **"Joint Proxy Statement/Prospectus"**) and Parent shall prepare and file a registration statement on Form S-4 with respect to the Share Issuance (the **"Form S-4"**). The Joint Proxy Statement/Prospectus will be included in and will constitute a part of the Form S-4 as Parent's prospectus. The Form S-4 and the Joint Proxy Statement/Prospectus shall comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder. Each of Parent and the Company shall use reasonable best efforts to have the Form S-4 declared effective by the SEC and to keep the Form S-4 effective as long as is necessary to consummate the Merger and the transactions contemplated thereby. Parent and the Company shall, as promptly as practicable after receipt thereof, provide the other party copies of any written comments and advise the other party of any oral comments, with respect to the Joint Proxy Statement/Prospectus and Form S-4 received from the SEC. Parent shall provide the Company with a reasonable opportunity to review and comment on any amendment or supplement to the Form S-4 and any communications (other than any communications filed pursuant to Rule 425 of the Securities Act) prior to filing such with the SEC, and will provide the Company with a copy of all such filings and communications made with the SEC. Notwithstanding any other provision herein to the contrary, no amendment or supplement (including by incorporation by reference) to the Joint Proxy Statement/Prospectus or the Form S-4 shall be made without the approval of both parties, which approval shall not be unreasonably withheld or delayed; *provided* that, with respect to documents filed by a party which are incorporated by reference in the Form S-4 or Joint Proxy Statement/Prospectus, this right of approval shall apply only with respect to information relating to the other party or its business, financial condition or results of operations. Parent will use reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to Parent's stockholders, and the Company will use reasonable best efforts to cause the Joint Proxy Statement/Prospectus to be mailed to the Company's stockholders, in each case after the Form S-4 is declared effective under the Securities Act. Parent shall also take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or to file a general consent to service of

process) required to be taken under any applicable state securities laws in connection with the Share Issuance and the Company shall furnish all information concerning the Company and the holders of Company Common Stock as may be reasonably requested in connection with any such action. Each party will advise the other party, promptly after it receives notice thereof, of the time when the Form S-4 has become effective, the issuance of any stop order, the suspension of the qualification of the Parent Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Joint Proxy Statement/Prospectus or the Form S-4. Each of the Company and Parent shall ensure that the information provided by it for inclusion in the Joint Proxy Statement/Prospectus and each amendment or supplement thereto, at the time of mailing thereof and at the time of the respective Company Stockholders Meeting and Parent Stockholders Meeting, or, in the case of information provided by it for inclusion in the Form S-4 or any amendment or supplement thereto, at the time it becomes effective, (i) will not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading and (ii) will comply as to form in all material respects with the provisions of the Securities Act and the Exchange Act.

SECTION 7.2 *No Solicitation by the Company.*

(a) The Company shall not, nor shall it authorize or cause any of its Subsidiaries, any of the respective directors, officers or employees of the Company or any of its Subsidiaries or any agents or representatives of the Company or any of its Subsidiaries (including any investment banker, attorney or accountant retained by the Company or any of its Subsidiaries) to, directly or indirectly through another person, (i) solicit or initiate (including by way of furnishing information) any inquiry or the making of any proposal or offer that constitutes, or that could reasonably be expected to lead to, a Company Takeover Proposal or (ii) enter into, continue or otherwise participate or engage in any discussions or negotiations regarding, furnish to any person any confidential information or data in connection with, or, except in conjunction with exercising its right to terminate this Agreement pursuant to *Section 9.4(b)*, accept, any Company Takeover Proposal. The Company agrees that it will use reasonable best efforts to promptly inform its directors and officers of the obligations undertaken in this *Section 7.2*. Without limiting the foregoing, it is agreed that any violation of the restrictions set forth in this *Section 7.2* by any director, officer, employee, agent or representative of the Company or any of its Subsidiaries, whether or not such person is purporting to act on behalf of the Company or any of its Subsidiaries or otherwise, shall be a breach of this *Section 7.2* by the Company. The Company shall, and shall cause its Subsidiaries and their respective directors, officers, employees, agents and representatives to, immediately cease and cause to be terminated all existing discussions or negotiations with any person conducted heretofore with respect to any Company Takeover Proposal and request the prompt return or destruction of all confidential information previously furnished.

(b) Notwithstanding anything in this Agreement to the contrary, the Company or the Company's Board of Directors shall be permitted to:

(i) to the extent applicable, comply with its disclosure obligations under federal or state law with regard to a Company Takeover Proposal, including Rule 14d-9 and Rule 14e-2 promulgated under the Exchange Act;

(ii) effect a Company Adverse Recommendation Change in accordance with *Section 7.3(a)*; and

(iii) engage in any discussions or negotiations with, or provide any information to, any person in response to an unsolicited bona fide written Company Takeover Proposal by any such person, if and only to the extent that (A) the Company's Stockholders Meeting shall not have occurred, (B) the Company's Board of Directors determines in good faith (I) after consultation with its independent financial advisor and outside legal counsel, that such Company Takeover Proposal is a Company Superior Proposal or there is a reasonable likelihood that such Company Takeover Proposal could result in a Company Superior Proposal, and (II) after consultation with its outside legal counsel, that failure to take such action would be reasonably likely to be inconsistent with its fiduciary duties under Applicable Law, (C) prior to providing any confidential information or data to any person in connection with a Company Takeover Proposal by any such person, the Company's Board of Directors receives from such person an executed

confidentiality agreement customary for a transaction of this type (*provided* that such agreement shall contain customary standstill provisions that are no less restrictive than those set forth in *Section 9.5(e)*), and (D) prior to providing any information or data to any person or entering into discussions or negotiations with any person, the Company notifies Parent promptly of such inquiries, proposals or offers received by, or any such discussions or negotiations sought to be initiated or continued with, any of the respective directors, officers, employees, agents or representatives of the Company or any of its Subsidiaries indicating, in connection with such notice, the material terms and conditions of any inquiries, proposals or offers, provided that such notice shall not be required to contain any information the provision of which the Company's Board of Directors determines in good faith, after consultation with its outside legal counsel, would be reasonably likely to be inconsistent with its fiduciary duties under Applicable Law.

(c) The Company shall notify Parent promptly of the receipt of any Company Takeover Proposal. The Company shall keep Parent reasonably informed of the status and material terms and conditions (including any change therein) of any Company Takeover Proposal. Nothing in this *Section 7.2* shall permit Parent or the Company to terminate this Agreement (except as specifically provided in *Article 9* hereof).

The term **"Company Takeover Proposal"** means any inquiry, proposal or offer from any person relating to, or that could reasonably be expected to lead to, directly or indirectly, (i) any acquisition or purchase, whether by purchase, exchange, merger, consolidation, business combination or similar transaction, in one transaction or a series of transactions, of assets or businesses that constitute 15% or more of the revenues, net income or the assets of the Company and its Subsidiaries, on a consolidated basis, or 15% or more of any class of equity securities of the Company or any of its Subsidiaries, (ii) any tender offer or exchange offer that if consummated would result in any person beneficially owning 15% or more of any class of equity securities of the Company or any of its Subsidiaries, or (iii) any merger, consolidation, business combination, recapitalization, liquidation, dissolution, joint venture, binding share exchange or similar transaction involving the Company or any of its Subsidiaries pursuant to which any person or the stockholders of any person would own 15% or more of any class of equity securities of the Company or any of its Subsidiaries or of any resulting parent company of the Company, other than the transactions contemplated by this Agreement.

The term **"Company Superior Proposal"** means any unsolicited bona fide written offer made by a third party in respect of a transaction (or series of related transactions) that if consummated would result in such third party acquiring, directly or indirectly, more than 50% of the voting power of the Company Common Stock or more than 50% of the assets of the Company and its Subsidiaries, taken as a whole, which transaction the Board of Directors of the Company determines in its good faith judgment (after consultation with a financial advisor of nationally recognized reputation) (i) to be more favorable from a financial point of view to the stockholders of the Company than the Merger (taking into account the person making the offer, the terms and conditions of such offer and this Agreement (including any changes to the financial terms of this Agreement proposed by Parent in response to such offer or otherwise), as well as any other factors deemed relevant by the Board of Directors of the Company) and (ii) reasonably capable of being financed and completed, taking into account all financial, legal, regulatory, timing and other aspects of such proposal deemed relevant by the Board of Directors of the Company.

For purposes of the definitions of "Company Takeover Proposal" and "Company Superior Proposal," the term "person" shall include any group within the meaning of Section 13(d) of the Exchange Act.

SECTION 7.3 *Meetings of Stockholders.*

(a) The Company shall duly take all action necessary, in accordance with Applicable Law and its articles of incorporation and bylaws, to call, give notice of, convene and hold a meeting of its stockholders as promptly as practicable after the Form S-4 has been declared effective (the **"Company Stockholders Meeting"**) for the purpose of obtaining the Company Stockholder Approval and shall solicit the Company Stockholder Approval. The Board of Directors of the Company shall recommend adoption of this Agreement by the stockholders of the Company to the effect set forth in *Section 3.19*. Neither the Board of Directors of the Company nor any committee thereof shall (i) (A) withdraw, qualify or modify in any manner adverse to Parent, or publicly propose to withdraw, qualify or modify in any manner adverse to Parent, the approval,

recommendation or declaration of advisability by such Board of Directors or any such committee thereof of this Agreement, the Merger or the other transactions contemplated by this Agreement or (B) recommend, adopt or approve, or publicly propose to recommend, adopt or approve, any Company Takeover Proposal (any such action described in this clause (i) being referred to as a **"Company Adverse Recommendation Change"**) or (ii) approve or recommend, or publicly propose to approve or recommend, or, except in conjunction with exercising its right to terminate this Agreement pursuant to *Section 9.4(b)*, allow the Company or any of its Subsidiaries to execute or enter into, any letter of intent, memorandum of understanding, agreement in principle, merger agreement, acquisition agreement, purchase agreement, option agreement, joint venture agreement, partnership agreement or other similar agreement constituting or related to any Company Takeover Proposal. Notwithstanding the foregoing, at any time prior to obtaining the Company Stockholder Approval, the Board of Directors of the Company may make a Company Adverse Recommendation Change if such Board of Directors determines in good faith (after consultation with outside counsel) that the failure to do so would be reasonably likely to be inconsistent with its fiduciary duties to the stockholders of the Company under Applicable Law; *provided, however,* that no Company Adverse Recommendation Change may be made until after the third business day following Parent's receipt of written notice (a **"Company Notice of Adverse Recommendation"**) from the Company advising Parent that the Board of Directors of the Company intends to make a Company Adverse Recommendation Change and specifying the terms and conditions of the Company Superior Proposal, if any, that is related to such Company Adverse Recommendation Change (it being understood and agreed that any material amendment to the financial terms or any other material term of such Company Superior Proposal shall require a new Company Notice of Adverse Recommendation and a new three business day period). In determining whether to make a Company Adverse Recommendation Change, the Board of Directors of the Company shall take into account any changes to the financial terms of this Agreement proposed by Parent in response to a Company Notice of Adverse Recommendation or otherwise. Notwithstanding any Company Adverse Recommendation Change, this Agreement shall be submitted to the stockholders of the Company at the Company Stockholders Meeting for the purpose of obtaining the Company Stockholder Approval; provided that this Agreement shall not be required to be submitted to the stockholders of the Company at the Company Stockholders Meeting if this Agreement has been terminated pursuant to *Article 9* hereof. In addition, it is understood and agreed that, for purposes of this Agreement, a factually accurate public statement by the Company that describes the Company's receipt of a Company Takeover Proposal and the operation of this Agreement with respect thereto, or any "stop, look and listen" communication by the Board of Directors of the Company pursuant to Rule 14d-9(f) of the Exchange Act to the stockholders of the Company, shall not constitute a Company Adverse Recommendation Change or an approval or recommendation with respect to any Company Takeover Proposal.

(b) Parent shall duly take all action necessary, in accordance with Applicable Law and its certificate of incorporation and bylaws, to call, give notice of, convene and hold a meeting of its stockholders as promptly as practicable after the Form S-4 has been declared effective (the **"Parent Stockholders Meeting"**) for the purpose of obtaining the Parent Stockholder Approval and shall take all lawful action to solicit the Parent Stockholder Approval. The Board of Directors of Parent shall recommend adoption of this Agreement by the stockholders of Parent to the effect set forth in *Section 4.19*.

(c) The Company and Parent shall cause the Company Stockholders Meeting and the Parent Stockholders Meeting to be held on the same day.

(d) Parent, as the sole stockholder of Merger Sub, shall take all action necessary to cause Merger Sub to adopt this Agreement prior to the Closing.

SECTION 7.4 *Filings; Reasonable Best Efforts.*

(a) Subject to the terms and conditions herein provided, each of the Company and Parent shall:

(i) make its required filings under the HSR Act with respect to the transactions contemplated hereby, which filings shall be made as promptly as practicable after the date hereof and in any event not more than ten (10) business days from the date hereof (unless otherwise agreed to by the parties in writing), and thereafter shall promptly make any other required submissions under the HSR Act;

(ii) cooperate and use its reasonable best efforts to promptly prepare and file all necessary documentation to effect all necessary applications, notices, petitions, filings, tax ruling requests and other documents, and to use reasonable best efforts to obtain (and will cooperate with each other in obtaining) as promptly as practicable any consent, waiver, license, registration, acquiescence, permit, tax ruling, authorization, order or approval of, or any exemption or nonopposition by, any third party and/or any Governmental Entity necessary or advisable to be obtained or made by any party or any of their respective Subsidiaries in connection with the transactions contemplated hereby, including the Specified Consents. Each party shall have the right to review and approve in advance (such approvals not to be unreasonably withheld or delayed) all applications for approvals to be filed by the other party. Each party shall consult with the other with respect to the obtaining of all such necessary or advisable consents, waivers, licenses, registrations, acquiescences, permits, tax rulings, authorizations, orders or approvals of, or any exemptions or nonoppositions by, third parties and/or Governmental Entities, including the Specified Consents;

(iii) promptly notify each other of any communication concerning this Agreement or the transactions contemplated hereby to that party from any Governmental Entity and permit the other party to review in advance any proposed communication concerning this Agreement or the transactions contemplated hereby to any Governmental Entity;

(iv) not participate or agree to participate in any meeting or discussion with any Governmental Entity in respect of any filing, investigation or other inquiry concerning this Agreement or the transactions contemplated hereby unless it consults with the other party in advance and, to the extent permitted by such Governmental Entity, gives the other party the opportunity to attend and participate in such meeting or discussion;

(v) furnish the other party with copies of all correspondence, filings and communications (and memoranda setting forth the substance thereof) between it and its affiliates and representatives on the one hand, and any Governmental Entity or members of any such Governmental Entity's staff on the other hand, with respect to this Agreement and the transactions contemplated hereby;

(vi) furnish the other party with such necessary information and reasonable assistance as such other party and its affiliates may reasonably request in connection with their preparation of necessary filings, registrations or submissions of information to any Governmental Entity, including, if applicable, any filings necessary or appropriate under the provisions of the HSR Act;

(vii) if applicable, "substantially comply" and certify substantial compliance with any request for additional information (also known as a "second request") issued pursuant to the HSR Act as soon as reasonably practicable following the issuance of the request for additional information; and

(viii) if any objections are asserted with respect to the transactions contemplated hereby under any Applicable Law or if any Action is instituted by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of any Applicable Law, each of Parent and the Company shall use its reasonable best efforts to resolve any such objections or challenge as such Governmental Entity or private party may have to such transactions under such Applicable Law so as to permit consummation of the transactions contemplated by this Agreement.

(b) Without limiting *Section 7.4(a)*, but subject to *Section 7.4(c)*, the Company and Parent shall each use reasonable best efforts:

(i) if applicable, to cause the expiration or termination of the applicable waiting period under the HSR Act; and

(ii) to avoid the entry of, or to have vacated, terminated or modified, any Order that would restrain, prevent or delay the Closing.

(c) Nothing in this Agreement shall require the Company or Parent to dispose of any of its assets or to limit its freedom of action with respect to any of its businesses, or to consent to any disposition of its assets or limits on its freedom of action with respect to any of its businesses, whether prior to or after the Effective

Time, or to commit or agree to any of the foregoing, to obtain any consents, approvals, permits or authorizations or to remove any impediments to the Merger relating to Antitrust Laws or to avoid the entry of, or to effect the dissolution of, any Order in any suit or proceeding relating to the HSR Act or other antitrust, competition, premerger notification or trade-regulation law, regulation or order (**"Antitrust Laws"**), other than such dispositions, limitations or consents, commitments or agreements that in each such case may be conditioned upon the consummation of the Merger and the transactions contemplated hereby and that in each such case, individually or in the aggregate, do not have and are not reasonably likely to have a Material Adverse Effect on Parent or the Surviving Corporation after the Merger; *provided, however*, that neither Parent nor the Company shall take or agree to any action required or permitted by this *Section 7.4(c)* without the prior written consent of the other party (which consent shall not be unreasonably withheld or delayed).

(d) The Company, Parent and Merger Sub shall each use its reasonable best efforts to cause the Merger to qualify as a "reorganization" within the meaning of Section 368(a) of the Code and to obtain the tax opinion referred to in *Section 8.1(h)*. The Company, Parent and Merger Sub agree to file all tax Returns consistent with the treatment of the Merger as a "reorganization" within the meaning of Section 368(a) of the Code and in particular as a transaction described in Section 368(a)(2)(E) of the Code. This Agreement is intended to constitute a "plan of reorganization" within the meaning of Treasury Regulation Section 1.368-2(g).

SECTION 7.5 *Access to Information and Employees; Site Inspection.*

(a) From the date of this Agreement to the Effective Time and subject to Applicable Law and the Confidentiality Agreement, each party shall (and shall cause its Subsidiaries to) afford to the officers, designated employees, attorneys, accountants, financial advisors and other representatives of the other party reasonable access during normal business hours to all its properties, books, contracts, commitments, records, files, business plans, systems and officers and, during such period, such party shall (and shall cause its Subsidiaries to) furnish promptly to the other party all other information concerning it and its business, properties and personnel as such other party may reasonably request. Notwithstanding the foregoing, neither party shall be required to provide any information (i) that it is prohibited by Applicable Laws from providing to the other party, (ii) that constitutes information protected by attorney/client privilege or (iii) that it is required to keep confidential by reason of contract or agreement with third parties.

(b) From the date of this Agreement to the Effective Time, Parent may undertake or cause to be undertaken, environmental and operational assessments (**"Assessments"**) of the Company's operations, business or properties. Assessments may include environmental investigations, audits, assessments, studies (including "Phase II" studies), testing and visual and physical inspections. The Company shall cooperate in good faith with Parent's (or its consultants') efforts to conduct Assessments.

(c) Each party agrees that it shall not, and shall cause its representatives not to, use any information obtained pursuant to this *Section 7.5* for any purpose unrelated to the consummation of the transactions contemplated by this Agreement. All non-public information obtained pursuant to this *Section 7.5* shall be governed by the Confidentiality Agreement dated November 27, 2007 between the Company and Parent (the **"Confidentiality Agreement"**).

SECTION 7.6 *Publicity.* Each of the Company and Parent will consult with each other before issuing any press release or similar public announcement pertaining to this Agreement or the transactions contemplated hereby and shall not issue any such press release or make any such public announcement without the prior consent of the other party, which consent shall not be unreasonably withheld, delayed or conditioned, except as may be required by Applicable Laws or by obligations pursuant to any listing agreement with any national securities exchange, in which case the party proposing to issue such press release or make such public announcement shall use its reasonable best efforts to consult in good faith with the other party before issuing any such press release or making any such public announcement.

SECTION 7.7 *Listing Application.* Parent shall use reasonable best efforts to promptly prepare and submit to the NYSE a listing application covering the Share Issuance and shall use reasonable best efforts to obtain, prior to the Effective Time, approval for the Share Issuance.

SECTION 7.8 *Letters of Accountants.*

(a) Parent shall use reasonable best efforts to cause to be delivered to the Company two "comfort" letters of Beard Miller Company LLP, Parent's independent registered public accounting firm, one dated approximately the date on which the Form S-4 shall become effective and one dated the Closing Date, each addressed to the Company and Parent, in form reasonably satisfactory to the Company and customary in scope and substance for "comfort" letters delivered by independent registered public accounting firms in connection with registration statements similar to the Form S-4.

(b) The Company shall use reasonable best efforts to cause to be delivered to Parent two "comfort" letters of BDO Seidman, LLP, the Company's independent registered public accounting firm, one dated approximately the date on which the Form S-4 shall become effective and one dated the Closing Date, each addressed to Parent and the Company, in form reasonably satisfactory to Parent and customary in scope and substance for "comfort" letters delivered by independent registered public accounting firms in connection with registration statements similar to the Form S-4.

SECTION 7.9 *Expenses.* Whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except that (i) Parent and the Company shall share equally the filing fees required under or in connection with the HSR Act, (ii) Parent and the Company shall share equally the printing and mailing costs incurred in connection with mailing the Joint Proxy Statement/Prospectus to the respective stockholders of Parent and the Company, (iii) if the Merger is consummated, the Surviving Corporation or its relevant Subsidiary shall pay, or cause to be paid, any and all property or transfer taxes imposed on the Company or its Subsidiaries, and (iv) as otherwise agreed in writing by the parties. **"Expenses"** includes all out-of-pocket expenses (including all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation and filing of the Form S-4, the preparation, filing, printing and mailing of the Joint Proxy Statement/Prospectus, the solicitation of stockholder approvals, the filings made and/or other actions taken in connection with the Specified Consents and/or third-party consents and all other matters related to the transactions contemplated hereby.

SECTION 7.10 *Dividends.* After the date of this Agreement, each of Parent and the Company shall coordinate with the other the payment of dividends with respect to the Parent Common Stock and Company Common Stock and the record dates and payment dates relating thereto, it being the intention of the parties that holders of Parent Common Stock and Company Common Stock shall not receive two dividends, or fail to receive one dividend, for any single calendar quarter with respect to their shares of Parent Common Stock and/or Company Common Stock or any shares of Parent Common Stock that any such holder receives in exchange for such shares of Company Common Stock in the Merger.

SECTION 7.11 *Indemnification and Insurance.*

(a) For six years after the Effective Time, the Surviving Corporation shall indemnify and hold harmless and advance expenses to, to the full extent permitted by law as of the date of this Agreement, the individuals who at or prior to the Effective Time were present and former officers and directors of the Company or its Subsidiaries with respect to all acts or omissions by them in their capacities as such or taken at the request of the Company at any time prior to the Effective Time. The Surviving Corporation will honor all indemnification agreements, expense advancement and exculpation provisions with the individuals who at or prior to the Effective Time were officers and directors of the Company or its Subsidiaries (including under the Company's articles of incorporation or by-laws) in effect as of the date hereof in accordance with the terms thereof. All such indemnification agreements are listed on *Section 7.11(a)* of the Company Disclosure Schedule and the Company has provided to Parent true and accurate copies of all such indemnification agreements.

(b) For a period of six years after the Effective Time and with respect to claims arising from facts or events that occurred before the Effective Time, the Surviving Corporation shall cause to be maintained officers' and directors' liability insurance covering all former and present officers and directors of the

Company who are, or at any time prior to the Effective Time were, covered by the Company's existing officers' and directors' liability insurance policies on terms substantially no less advantageous to such persons than such existing insurance, provided that the Surviving Corporation shall not be required to pay annual premiums in excess of 200% of the last annual premium paid by the Company prior to the date of this Agreement (the amount of which premium is set forth in *Section 7.11(b)* of the Company Disclosure Schedule), but in such case shall purchase as much coverage as reasonably practicable for such amount.

SECTION 7.12 *Antitakeover Statutes.* If any Takeover Statute is or may become applicable to the transactions contemplated hereby, each of the parties and the members of its Board of Directors shall grant such approvals and take such actions as are necessary so that the transactions contemplated by this Agreement may be consummated as promptly as practicable on the terms contemplated hereby and otherwise use its commercially reasonable efforts to act to eliminate or minimize the effects of any Takeover Statute on any of the transactions contemplated by this Agreement.

SECTION 7.13 *Section 16 Matters.* Prior to the Closing, Parent and the Company, and their respective Boards of Directors or committees thereof, shall use their reasonable best efforts to take all actions to cause any dispositions of Company Common Stock (including derivative securities with respect to Company Common Stock) or acquisitions of Parent Common Stock (including derivative securities with respect to Parent Common Stock) resulting from the transactions contemplated by *Article 1* or *Article 2* of this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company, to be exempt under Rule 16b-3 promulgated under the Exchange Act, such actions to be taken in accordance with the terms and conditions set forth in no-action letters issued by the SEC in similar transactions.

SECTION 7.14 *Tax Treatment.* Parent and the Company intend the Merger to qualify as a reorganization under Section 368(a) of the Code. Each of Parent and the Company and each of their respective affiliates shall use their reasonable best efforts to cause the Merger to so qualify and to obtain the tax opinion referred to in *Section 8.1(h)*. For purposes of the tax opinion described in *Section 8.1(h)*, each of Parent and the Company shall use their reasonable best efforts to provide the representation letters described in *Section 8.1(h)*.

SECTION 7.15 *Notification.* The Company shall give prompt notice to Parent (i) in the event it receives or becomes aware of any complaint, charge or grievance against it or any of its Subsidiaries of any unfair labor practice, (ii) of the commencement of any organizational efforts as to which the Company obtains knowledge with respect to the formation of a collective bargaining unit or any threat thereof, and (iii) of any fact, event or circumstance as to which the Company obtains knowledge that would result in a failure of a condition set forth in *Section 8.3(a), Section 8.3(b)* or Section 8.3(c). Parent shall give prompt notice to the Company of any fact, event or circumstance as to which Parent obtains knowledge that would result in a failure of a condition set forth in *Section 8.2(a)* or *Section 8.2(b)*; *provided, however,* that the delivery of any notice pursuant to this *Section 7.15* shall not (i) affect the representations, warranties, covenants or agreements of the parties or the conditions to the obligations of the parties under this Agreement or (ii) limit or otherwise affect the remedies available hereunder to any of the parties sending or receiving such notice.

SECTION 7.16 *Employee Matters.*

(a) The Company and Parent agree that all employees of the Company and its Subsidiaries immediately prior to the Effective Time shall be employed by the Surviving Corporation immediately after the Effective Time, it being understood that Parent and the Surviving Corporation shall, except as required by Applicable Law, have no obligation to continue employing such employees for any length of time thereafter except pursuant to any applicable employment agreements. Parent shall deem, and shall cause the Surviving Corporation to deem, the period of employment with the Company and its Subsidiaries (and with predecessor employers with respect to which the Company and its Subsidiaries shall have granted service credit) to have been employment and service with Parent and the Surviving Corporation for benefit plan eligibility and vesting purposes (but not for purposes of benefit accruals or benefit computations) for all of Parent's and the Surviving Corporation's employee benefit plans, programs, policies or arrangements to the extent service with Parent or the Surviving Corporation is recognized under any such plan, program, policy or arrangement. The provisions of this *Section 7.16* are solely for the benefit of the parties to this Agreement, and no employee or former

employee of the Company or any of its Subsidiaries or any other individual associated therewith shall be regarded for any purpose as a third party beneficiary of this Agreement as a result of this *Section 7.16*.

(b) Parent shall keep in full force and effect all Company Benefit Plans (as modified pursuant to *Section 7.16(c)*) for a period of at least one year from the Closing Date for all employees and former employees of the Company at the Effective Time; provided, however, that solely with respect to employees of the Company who are members of a labor union or collective bargaining unit and in connection with any agreement or amendment or renewal thereto entered into by Parent or any of its Subsidiaries and a collective bargaining unit or labor union of the Company, Parent reserves the right to modify or terminate any Company Benefit Plan prior to such one-year anniversary date. After such one-year anniversary date, participation of the employees and former employees of the Company in the Company Benefit Plans may continue until such time as it is reasonably practicable to transfer the participation of such employees and former employees to Parent Benefit Plans, if any, taking into consideration any applicable collective bargaining agreement obligations and contractual arrangements with insurers or other benefit plan providers. Under any medical and dental plans covering any employee or former employee of the Company, there shall be waived, and Parent or the Surviving Corporation shall cause the relevant insurance carriers and other third parties to waive, all restrictions and limitations for any medical condition existing as of the Effective Time of any of such employees and their eligible dependents for the purpose of any such plans, provided such persons had the requisite "creditable" service prior to the Effective Time, but only to the extent that such condition would be covered by the relevant Company Benefit Plan if it were not a pre-existing condition and only to the extent of comparable coverage in effect immediately prior to the Effective Time.

(c) Prior to the Effective Time, the Company shall cause (i) its Pension Plan to be modified as set forth in Exhibit 7.16(c) hereto and (ii) its Employee Stock Purchase Plan not to be renewed for the period commencing on July 1, 2009, except, in the case of clause (ii), to the extent such action is prohibited or limited by (A) Applicable Law, (B) any existing contract between the Company and any labor union or collective bargaining unit or (C) any existing Employee Benefit Plan.

SECTION 7.17 *Director Resignations.* On the Closing Date, the Company shall cause to be delivered to Parent duly executed resignations, effective as of the Effective Time, of all members of the respective Boards of Directors of the Company and its Subsidiaries and shall take such other action as is necessary to accomplish the foregoing.

SECTION 7.18 *Parent Board of Directors.* Parent shall take all corporate action necessary to cause the election or appointment to its Board of Directors, effective upon or immediately after the Closing, of two members of the Company's Board of Directors, who shall be designated by Parent and disclosed to the Company at least fifteen (15) days in advance of the Closing.

SECTION 7.19 *Parent Stock Repurchase.* Notwithstanding anything in this Agreement, prior to the Closing Date, Parent or one or more of its affiliates may acquire, without limitation, shares of Parent Common Stock through open market transactions, block trades or other means.

SECTION 7.20 *Redemption of Company Preferred Stock.* Prior to the Effective Time, the Company shall redeem all outstanding shares of Company Preferred Stock at a redemption price equal to the amounts then required to be paid upon redemption of the applicable series of Company Preferred Stock pursuant to the terms of such series, together with all dividends accrued and unpaid to the date of such redemption.

ARTICLE 8

CONDITIONS

SECTION 8.1 *Conditions to Each Party's Obligation to Effect the Merger.* The respective obligation of each party to effect the Merger shall be subject to the fulfillment or waiver by each of the parties to this Agreement (subject to Applicable Laws) on or prior to the Closing Date of the following conditions:

(a) *Stockholder Approval.* The Parent Stockholder Approval and the Company Stockholder Approval shall have been obtained.

(b) *HSR Act.* If applicable, any waiting period (or extension thereof) applicable to the consummation of the Merger under the HSR Act shall have expired or been terminated.

(c) *No Illegality or Prohibition.* No Applicable Law shall have been adopted or promulgated, and no Order issued by a court or other Governmental Entity of competent jurisdiction shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(d) *Governmental Actions.* There shall not have been instituted and continuing or pending any Action by any Governmental Entity of competent jurisdiction seeking to make the Merger illegal or otherwise prohibiting consummation of the Merger.

(e) *Effectiveness of Form S-4.* The Form S-4 shall have been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Form S-4 shall be in effect and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(f) *NYSE Listing.* The NYSE Approval (in the form of an official notice of issuance) shall have been obtained.

(g) *Other Consents.* To the extent applicable to the consummation of the Merger, the Utility Approvals shall have been obtained.

(h) *Tax Opinion.* The Company and Parent shall have received from Baker & Hostetler LLP, counsel to Parent, on the Closing Date, a written opinion dated as of the Closing Date in form and substance satisfactory to the Company and Parent to the effect that the Merger will constitute a reorganization pursuant to Section 368 of the Code and certain tax consequences will result therefrom. In connection with rendering such opinion, Parent and the Company shall provide representation letters to such counsel to Parent in form and substance as such counsel to Parent deems reasonably necessary and such counsel to Parent shall be entitled to rely upon such representation letters provided by Parent and the Company.

SECTION 8.2 *Additional Conditions to Obligation of the Company to Effect the Merger.* The obligation of the Company to effect the Merger shall be subject to the fulfillment (or waiver by the Company) on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of Parent and Merger Sub contained in this Agreement shall be true and correct in all respects as of the date of this Agreement and the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date, and except as such representations and warranties are affected by actions explicitly permitted by this Agreement), except where the failure of the representations and warranties to be true and correct, individually or in the aggregate, has not had and is not reasonably likely to have a Parent Material Adverse Effect (other than representations and warranties qualified by Parent Material Adverse Effect or materiality, which shall be true and correct in all respects), and the Company shall have received a certificate of each of Parent and Merger Sub, executed on its behalf by its chief executive officer, president or chief financial officer, dated the Closing Date, to such effect.

(b) *Performance of Obligations of Parent.* All of the agreements and covenants required to be performed or complied with by Parent under this Agreement at or prior to the Closing Date that are qualified as to Material Adverse Effect or materiality shall have been performed or complied with in all respects and all other agreements and covenants required to be performed or complied with by Parent under this Agreement at or prior to the Closing Date that are not so qualified shall have been performed or complied with in all material respects, and the Company shall have received a certificate of Parent, executed on its behalf by its chief executive officer, president or chief financial officer, dated the Closing Date, to such effect.

(c) *No Parent Material Adverse Effect.* At any time after the date of this Agreement, there shall not have occurred any change, event, occurrence, state of facts or development that individually or in the aggregate has had or is reasonably likely to have a Parent Material Adverse Effect.

SECTION 8.3 *Additional Conditions to Obligation of Parent and Merger Sub to Effect the Merger.* The obligations of Parent and Merger Sub to effect the Merger shall be subject to the fulfillment (or waiver by Parent) on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of the Company contained in this Agreement shall be true and correct in all respects as of the date of this Agreement and the Closing Date (except to the extent such representations and warranties expressly relate to an earlier date, in which case as of such earlier date, and except as such representations and warranties are affected by actions explicitly permitted by this Agreement), except where the failure of the representations and warranties to be true and correct, individually or in the aggregate, has not had and is not reasonably likely to have a Company Material Adverse Effect (other than representations and warranties qualified by Company Material Adverse Effect or materiality, which shall be true and correct in all respects), and Parent shall have received a certificate of the Company, executed on its behalf by its chief executive officer, president or chief financial officer, dated the Closing Date, to such effect.

(b) *Performance of Obligations of the Company.* All of the agreements and covenants required to be performed or complied with by the Company under this Agreement at or prior to the Closing Date that are qualified as to Material Adverse Effect or materiality shall have been performed or complied with in all respects and all other agreements and covenants required to be performed or complied with by the Company under this Agreement at or prior to the Closing Date that are not so qualified shall have been performed or complied with in all material respects, and Parent shall have received a certificate of the Company, executed on its behalf by its chief executive officer, president or chief financial officer, dated the Closing Date, to such effect.

(c) *Employee Matters.* Notwithstanding *Section 8.3(b)*, the Company shall have performed in all respects all agreements and covenants required to be performed by it under *Section 7.16(c)*.

(d) *No Company Material Adverse Effect.* At any time after the date of this Agreement, there shall not have occurred any change, event, occurrence, state of facts or development that individually or in the aggregate has had or is reasonably likely to have a Company Material Adverse Effect.

ARTICLE 9

TERMINATION

SECTION 9.1 *Termination by Mutual Consent.* This Agreement may be terminated, and the Merger may be abandoned, at any time prior to the Effective Time, whether before or after Parent Stockholder Approval or the Company Stockholder Approval has been obtained, by the mutual written consent of Parent and the Company, through action of their respective Boards of Directors.

SECTION 9.2 *Termination by the Company or Parent.* This Agreement may be terminated at any time prior to the Effective Time, whether before or after Parent Stockholder Approval or the Company Stockholder Approval has been obtained, by action of the Board of Directors of the Company or Parent if:

(a) the Merger shall not have been consummated by January 31, 2010 (the **"Termination Date,"** which term shall include the date of any extension under this *Section 9.2(a)*); *provided, however*, that if on the Termination Date the conditions to Closing set forth in *Section 8.1(b) or 8.1(g)* shall not have been fulfilled but all other conditions to Closing shall or shall be capable of being fulfilled, then the Termination Date shall be automatically extended to March 31, 2010; and *provided, further*, that the right to terminate this Agreement pursuant to this clause (a) shall not be available to any party whose failure to perform or observe in any material respect any of its obligations under this Agreement in any manner shall have been the cause of, or resulted in, the failure of the Merger to occur on or before such date;

(b) the Parent Stockholders Meeting shall have been held and the Parent Stockholder Approval shall not have been obtained upon a vote taken thereon;

(c) the Company Stockholders Meeting shall have been held and the Company Stockholder Approval shall not have been obtained upon a vote taken thereon; or

(d) a Governmental Entity shall have issued an Order or taken any other action permanently restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement and such Order or other action shall have become final and nonappealable; *provided, however*, that the party seeking to terminate this Agreement pursuant to this clause (d) shall have fulfilled its obligations under *Section 7.4* and, with respect to other matters not covered by *Section 7.4*, shall have used its reasonable best efforts to remove such Order.

SECTION 9.3 *Termination by Parent.* This Agreement may be terminated at any time prior to the Effective Time by action of the Board of Directors of Parent if:

(a) The Company shall have breached any representation or warranty or failed to perform any covenant or agreement set forth in this Agreement or any representation or warranty of the Company shall have become untrue, in any case such that the conditions set forth in *Section 8.3(a) or 8.3(b)* would not be satisfied (assuming for purposes of this *Section 9.3(a)* that the references in *Section 8.3(a) and 8.3(b)* to "Closing Date" mean the date of termination pursuant to this *Section 9.3(a)*), and such breach shall not be curable, or, if curable, shall not have been cured within 45 days after the date that written notice of such breach is given to Parent by the Company or, in the event such breach is discovered by Parent, within 45 days after the date written notice of such breach is given to the Company by Parent; *provided, however,* that Parent may not terminate this Agreement under this *Section 9.3(a)* if it is then in breach of any representation, warranty, covenant or agreement set forth in this Agreement such that the Company would then be entitled to terminate this Agreement under *Section 9.4(a)* (without giving effect to the proviso in *Section 9.4(a)*);

(b) a Company Adverse Recommendation Change shall have occurred; or

(c) there shall have occurred a Company Material Adverse Effect.

SECTION 9.4 *Termination by the Company.* This Agreement may be terminated at any time prior to the Effective Time by action of the Board of Directors of the Company if:

(a) Parent or Merger Sub shall have breached any representation or warranty or failed to perform any covenant or agreement set forth in this Agreement or any representation or warranty of Parent or Merger Sub shall have become untrue, in any case such that the conditions set forth in *Section 8.2(a) or 8.2(b)* would not be satisfied (assuming for purposes of this *Section 9.4(a)* that the references in *Section 8.2(a) and 8.2(b)* to "Closing Date" mean the date of termination pursuant to this *Section 9.4(a)*), and such breach shall not be curable, or, if curable, shall not have been cured within 45 days after the date written notice of such breach is given to the Company by Parent or, in the event such breach is discovered by the Company, within 45 days after the date written notice of such breach is given to Parent by the Company; *provided, however,* that the Company may not terminate this Agreement under this *Section 9.4(a)* if it is then in breach of any representation, warranty, covenant or agreement set forth in this Agreement such that Parent would then be entitled to terminate this Agreement under *Section 9.3(a)* (without giving effect to the proviso in *Section 9.3(a)*);

(b) (i) The Board of Directors of the Company authorizes the Company, following a determination by the Board of Directors in good faith (after consultation with outside counsel) that the failure to do so would be reasonably likely to be inconsistent with its fiduciary duties to the stockholders of the Company under Applicable Law, to enter into a binding written agreement concerning a transaction that constitutes a Company Superior Proposal, (ii) the Company notifies Parent in writing that it intends to enter into such an agreement, and (iii) Parent does not make, within three business days of receipt of the Company's written notification of its intention to enter into a binding agreement for such Company Superior Proposal, an offer that the Board of Directors of the Company determines, in good faith after consultation with a financial advisor of nationally recognized reputation and its outside legal counsel, is at least as favorable to the Company's stockholders as such Company Superior Proposal, it being understood that the Company shall not enter into any such binding agreement during such three business-day period; or

(c) there shall have occurred a Parent Material Adverse Effect.

SECTION 9.5 *Effect of Termination.*

(a) In the event that this Agreement is terminated (i) by Parent pursuant to *Section 9.3(b)*, and no Parent Material Adverse Effect shall have occurred after the date of this Agreement and be continuing at the time of the Company Adverse Recommendation Change giving rise to the termination by Parent, or (ii) by the Company pursuant to *Section 9.4(b)*, then the Company shall pay Parent a fee equal to $3,400,000 (the **"Termination Fee"**) on the first business day following the date of termination of this Agreement. In the event that (A) after the date of this Agreement, a Company Takeover Proposal is publicly made to the Company or is publicly made directly to the stockholders of the Company generally or any person publicly announces an intention (whether or not conditional) to make a Company Takeover Proposal and (B) this Agreement is terminated by either the Company or Parent pursuant to *Section 9.2(a)* or *9.2(c)*, and within 365 days of such termination the Company or any of its Subsidiaries enters into any definitive agreement with respect to, or consummates, any Company Takeover Proposal, then the Company shall pay Parent the Termination Fee on the earlier of the date the Company or its Subsidiary enters into such agreement with respect to such Company Takeover Proposal and the date such Company Takeover Proposal is consummated. The Company acknowledges and agrees that (x) the agreements contained in this *Section 9.5(a)* are an integral part of the transactions contemplated by this Agreement, (y) constitute liquidated damages and not a penalty and (z) without these agreements, the other parties would not enter into this Agreement; accordingly, if the Company fails promptly to pay any amount due pursuant to this *Section 9.5(a)*, and, in order to obtain such payment, Parent commences a suit that results in a judgment for a fee payable pursuant to this *Section 9.5(a)*, the Company shall also reimburse Parent's costs and expenses (including attorneys' fees and expenses) in connection with such suit, together with interest on the amount of such fee from the date such payment was required to be made until the date of payment at the prime rate of PNC Bank, Delaware in effect on the date such payment was required to be made. Any payment to be made under this *Section 9.5(a)* shall be made by wire transfer of same-day funds.

(b) In the event of termination of this Agreement pursuant to this *Article 9*, all obligations of the parties hereunder shall terminate, except the obligations of the parties pursuant to this *Section 9.5*, *Sections 7.5(c)* and *7.9* and except for the provisions of *Sections 10.2, 10.3, 10.4, 10.6, 10.8, 10.9, 10.10, 10.11, 10.12 and 10.13, provided* that nothing herein shall relieve any party from any liability for any breach by such party of any of its representations, warranties, covenants or agreements set forth in this Agreement and all rights and remedies of the nonbreaching party under this Agreement, at law or in equity, shall be preserved.

(c) The Confidentiality Agreement shall survive any termination of this Agreement, and the provisions of such Confidentiality Agreement shall apply to all information and material delivered by any party hereunder.

(d) In the event of termination of this Agreement pursuant to this *Article 9*, for a period of one year following the date of such termination, neither the Company nor Parent or any of their respective Subsidiaries will hire, or solicit for hire or employment, directly or indirectly, any officer or employee of the other party or any of its Subsidiaries or any person who at the time of proposed hire had been an officer or employee of the other party or any of its Subsidiaries within the previous six months. For the purposes of this provision, "solicitation" shall not include solicitation of any non-officer employee who is solicited by advertising in a newspaper or periodical of general circulation or who on his or her own initiative seeks employment with the Company or Parent or any of their respective Subsidiaries, as the case may be.

(e) In the event of termination of this Agreement pursuant to this *Article 9*, for a period of one year following the date of such termination, without the prior written consent of the Company's or Parent's Board of Directors, as the case may be, neither Parent nor the Company will directly or indirectly (nor will either of them assist or encourage directly or indirectly others to): (i) acquire or agree, offer, seek or propose to acquire, or cause to be acquired, directly or indirectly, by purchase or otherwise, ownership of any voting securities or rights to acquire any voting securities of the other, or any of the assets or businesses of the other or any subsidiary or division thereof or any bank debt, claims or other obligations of the other or any rights to acquire such ownership (including from a third party); (ii) seek or propose to influence or control the management or policies of the other or to obtain representation on the other's Board of Directors, or solicit, or participate in

the solicitation of, any proxies of the other's stockholders, or make any public announcement with respect to any of the foregoing; (iii) make any public announcement with respect to, or submit a proposal for, or offer of (with or without conditions) any extraordinary transaction involving the other or its securities or assets; or (iv) enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing, or otherwise form, join or in any way participate in a "group" (as defined in the Exchange Act) in connection with any of the foregoing. Each party will promptly advise the other of any inquiry or proposal made to it with respect to any of the foregoing. Notwithstanding the foregoing, (A) either party shall be permitted to commence a non-coercive tender offer for the other's common stock at a price higher than that contemplated by any other then-existing merger agreement to which the other is a party; and (B) either party may comment on any merger negotiation process or other matter relating to or involving the merger or takeover of the other party in order to correct material misstatements or omissions made by the other party or its advisors.

SECTION 9.6 *Extension; Waiver.* At any time prior to the Effective Time, each party may by action taken by its Board of Directors, to the extent legally allowed, (i) extend the time for the performance of any of the obligations or other acts of the other parties, (ii) waive any inaccuracies in the representations and warranties made to such party contained herein or in any document delivered pursuant hereto and (iii) waive compliance with any of the agreements or conditions for the benefit of such party contained herein. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party.

ARTICLE 10

GENERAL PROVISIONS

SECTION 10.1 *Nonsurvival of Representations, Warranties and Agreements.* None of the representations, warranties, covenants and other agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except for those covenants and agreements contained herein and therein that by their terms apply or are to be performed in whole or in part after the Effective Time and this *Article 10*.

SECTION 10.2 *Notices.* Except as otherwise provided herein, any notice required to be given hereunder shall be sufficient if in writing and sent by facsimile transmission, courier service (with proof of service) or hand delivery, addressed as follows:

if to Parent or Merger Sub, at:

Chesapeak Utilities Corporation
909 Silver Lake Boulevard
Dover, DE 19904
Attention: John Schimkaitis
Facsimile No.: 302-734-6750

with a copy, which shall not constitute notice for purposes hereof, to:

Baker & Hostetler LLP
SunTrust Center, Suite 2300
200 South Orange Avenue
Orlando, FL 32801-3432
Attention: Jeffrey Decker, Esq.
Facsimile No.: 407-841-0168

if to the Company, at:

Florida Public Utilities Company
401 South Dixie Highway
West Palm Beach, Florida 33401
Attention: John T. English
Facsimile No.: 561-833-0151

with a copy, which shall not constitute notice for purposes hereof, to:

Bryan Cave LLP
700 13th Street, N.W. Suite 700
Washington, DC 20005
Attention: LaDawn Naegle, Esq.
Facsimile No.: 202-508-6200

or to such other address as any party shall specify by written notice so given, and such notice shall be deemed to have been delivered as of the date so telecommunicated or delivered.

SECTION 10.3 *Assignment; Binding Effect; Benefit.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other parties, and any attempt to make any such assignment without such consent shall be null and void. Subject to the preceding sentence, this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties and their respective successors and assigns. Notwithstanding anything contained in this Agreement to the contrary, except for the provisions of *Section 7.11*, nothing in this Agreement, expressed or implied, is intended to or shall confer any rights, remedies, obligations or liabilities upon any person other than the parties and their respective successors and permitted assigns.

SECTION 10.4 *Entire Agreement.* This Agreement, the Exhibits to this Agreement, the Parent Disclosure Schedule, the Company Disclosure Schedule and the Confidentiality Agreement constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect thereto.

SECTION 10.5 *Amendments.* This Agreement may be amended by the parties, by action taken or authorized by their Boards of Directors, at any time before or after obtaining the Company Stockholder Approval or the Parent Stockholder Approval, but after any such stockholder approval, no amendment shall be made which by law requires the further approval of stockholders without obtaining such further approval. To be effective, any amendment or modification hereto must be in a written document each party has executed and delivered to the other parties.

SECTION 10.6 *Governing Law.* This Agreement and the rights and obligations of the parties shall be governed by and construed and enforced in accordance with the laws of the State of Florida without regard to the conflicts of law provisions thereof that would cause the laws of any other jurisdiction to apply.

SECTION 10.7 *Counterparts.* This Agreement may be executed by the parties in separate counterparts, all of which shall constitute one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that all parties need not sign the same counterpart.

SECTION 10.8 *Headings.* Headings of the Articles and Sections of this Agreement are for the convenience of the parties only and shall be given no substantive or interpretative effect whatsoever.

SECTION 10.9 *Interpretation; Certain Definitions.*

(a) When a reference is made in this Agreement to Sections, Exhibits or Disclosure Schedules, such reference shall be to a Section of or Exhibit or Disclosure Schedule to this Agreement unless otherwise indicated.

(b) Unless the context otherwise requires, words describing the singular number shall include the plural and vice versa, words denoting any gender shall include all genders, and words denoting natural persons shall include corporations, limited liability companies and partnerships and vice versa.

(c) Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

(d) The words "stockholder" or "stockholders" shall be deemed to include the words "shareholder" or "shareholders" and vice versa and the word "stock" shall be deemed to include the word "share" or "shares" and vice versa.

(e) The phrase **"to the knowledge of"** and similar phrases relating to knowledge of Parent or the Company, as the case may be, shall mean with respect to Parent, the actual knowledge of John R. Schimkaitis, Michael P. McMasters and Beth W. Cooper, and with respect to the Company, the actual knowledge of John T. English, Charles L. Stein and George M. Bachman.

(f) *"Material Adverse Effect"* means, with respect to any party, any change, effect, event, occurrence, state of facts or development that individually or in the aggregate has a material adverse effect on or constitutes a material adverse change in (i) the ability of the party to consummate the transactions contemplated by this Agreement or fulfill the conditions to Closing or (ii) the business, assets, financial condition or results of operations of such party and its Subsidiaries, taken as a whole, except with respect to clause (ii) any such change or effect that arises or results from (A) changes that affect the United States economy in general and that do not disproportionately affect such party in any material respect, (B) changes in the credit, debt, financial or capital markets, including changes in interest or exchange rates, in each case in the United States or elsewhere in the world and in each case that do not disproportionately affect such party in any material respect, (C) changes in law, (D) changes that affect generally the industries in which such party operates and that do not disproportionately affect such party in any material respect, (E) changes in GAAP, (F) acts of war or terrorism, (G) the negotiation, execution, announcement or performance of this Agreement, including the impact thereof on relationships, contractual or otherwise, with customers, suppliers, distributors, partners, financing sources, employees, revenue and profitability, (H) earthquakes, hurricanes, tornados or other natural disasters, (I) any action taken by the Company or its Subsidiaries or by the Parent or its Subsidiaries as expressly contemplated by this Agreement or with Parent's or the Company's, as the case may be, written consent or at Parent's or the Company's, as the case may be, written request, (J) any decline in and of itself in the market price, or change in trading volume, of the capital stock of the Company or Parent, (K) the suspension of trading generally on the AMEX or the NYSE, or (L) any shareholder or derivative litigation arising from allegations of a breach of fiduciary duty or other violation of Applicable Law relating to this Agreement or the transactions contemplated hereby. All references to a Parent Material Adverse Effect contained in this Agreement shall be deemed to refer solely to Parent and its Subsidiaries without including its ownership of the Company and its Subsidiaries after the Merger, unless otherwise specified.

(g) The term **"Subsidiary,"** when used with respect to any party, means any (i) corporation or other organization (including a limited liability company or a partnership), whether incorporated or unincorporated, of which such party directly or indirectly owns or controls at least 50% of the securities or other interests having by their terms ordinary voting power to elect at least 50% of the board of directors or others performing similar functions with respect to such corporation or (ii) other organization or any organization of which such party directly or indirectly is, or owns or controls, a general partner or managing member.

(h) For purposes of this Agreement, **"tax"** or **"taxes"** means all net income, gross income, gross receipts, sales, use, ad valorem, transfer, accumulated earnings, personal holding company, excess profits, franchise, profits, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, disability, capital stock or windfall profits taxes, customs duties or other taxes, fees, assessments or governmental charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority.

(i) As used in this Agreement, the term **"Permitted Liens"** shall mean Liens for taxes not yet due and payable; statutory Liens of lessors; Liens of carriers, warehousemen, repairmen, mechanics and materialmen

arising by operation of law in the ordinary course of business; Liens incurred in the ordinary course of business that secure obligations not yet due and payable; Liens securing indebtedness of the Company and its Subsidiaries or Parent and its Subsidiaries outstanding or incurred in accordance with *Section 6.1* or *6.2*.

(j) All parties will be considered drafters of this Agreement and accordingly any ambiguity shall not be construed against any particular party.

SECTION 10.10 *Waivers.* Except as provided in this Agreement, no action taken pursuant to this Agreement, including any investigation by or on behalf of any party, or delay or omission in the exercise of any right, power or remedy accruing to any party as a result of any breach or default hereunder by any other party shall be deemed to impair any such right, power or remedy, nor will it be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

SECTION 10.11 *Incorporation of Disclosure Schedules and Exhibits.* The Parent Disclosure Schedule, the Company Disclosure Schedule and all Exhibits attached hereto and referred to herein are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

SECTION 10.12 *Severability.* If any provision of this Agreement is invalid, illegal or unenforceable, that provision will, to the extent possible, be modified in such a manner as to be valid, legal and enforceable but so as to retain most nearly the intent of the parties as expressed herein, and if such a modification is not possible, that provision will be severed from this Agreement, and in either case the validity, legality and enforceability of the remaining provisions of this Agreement will not in any way be affected or impaired thereby. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

SECTION 10.13 *Enforcement of Agreement.* The parties agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with its terms and that the parties shall be entitled, without posting a bond or similar indemnity, to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof, in addition to any other remedy to which the parties are entitled at law or in equity.

[Signatures appear on the next page.]

IN WITNESS WHEREOF, each of the parties has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized on the day and year first above written.

FLORIDA PUBLIC UTILITIES COMPANY

By: /s/ John T. English
John T. English,
President and Chief Executive Officer

CHESAPEAKE UTILITIES CORPORATION

By: /s/ John R. Schimkaitis
John R. Schimkaitis,
President and Chief Executive Officer

CPK PELICAN, INC.

By: /s/ John R. Schimkaitis
John R. Schimkaitis,
President and Chief Executive Officer

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PRIVATE AND CONFIDENTIAL

April 17, 2009

Board of Directors
Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, DE 19904

Members of the Board of Directors:

Chesapeake Utilities Corporation ("Seagull" or the "Company") proposes to enter into an Agreement and Plan of Merger (the "Agreement") with Florida Public Utilities Company ("Pelican" or the "Target"). Pursuant to the Agreement, Seagull will acquire Pelican in a merger in which (i) a wholly owned subsidiary of Seagull will merge with and into Pelican; and (ii) upon effectiveness of the merger, each issued and outstanding share of common stock of Pelican, except for shares of Pelican common stock owned by Pelican as treasury stock or owned by Merger Sub or Seagull or any of their respective direct or indirect wholly owned subsidiaries, will be converted into the right to receive 0.405 shares (the "Exchange Ratio") of the common stock of Seagull. Such merger transaction and the transactions associated therewith are referred to herein as the "Transaction".

In connection with your consideration of the Transaction, you have requested our opinion as to the fairness, from a financial point of view, to the Company of the Exchange Ratio. Pursuant to your request, we have only considered the fairness of the Exchange Ratio payable by the Company in the Transaction, from a financial point of view, to the Company.

As part of our investment banking business, we are engaged in the evaluation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

In conducting our investigation and analyses and in arriving at our opinion herein, we have reviewed such information and have taken into account such financial and economic factors, investment banking procedures and considerations as we have deemed relevant under the circumstances. In that connection, we have, among other things: (i) reviewed certain internal information, primarily financial in nature, including financial forecasts for the fiscal years ending December 31, 2009 through December 31, 2013 (the "Forecasts"), concerning the business and operations of the Target and the Company furnished to us for purposes of our analysis; (ii) reviewed certain publicly available information including, but not limited to, the Target's and the Company's recent filings with the Securities and Exchange Commission; (iii) reviewed the draft Agreement dated April 7, 2009 in the form presented to the Company's Board of Directors; (iv) compared the financial position and operating results of the Target and the Company with those of other publicly traded companies we deemed relevant and considered the market trading multiples of such companies; (v) compared the proposed financial terms of the Transaction with the financial terms of other business combinations we deemed relevant; and (vi) considered the present values of the forecasted cash flows of the Target. We have held discussions with members of the Target's and the Company's respective senior managements concerning the Target's and the Company's respective historical and current financial condition and operating results, as well as the future prospects of the Target. We have also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant for the preparation of this opinion.

In arriving at our opinion, we have assumed and relied upon the accuracy and completeness of all of the financial and other information that was publicly available or provided to us by or on behalf of the Target and the Company. We have not been engaged to independently verify, and have not assumed any responsibility to

verify, any such information, and we have assumed that neither the Target nor the Company is aware of any information prepared by it or its advisors that might be material to our opinion that has not been provided to us. We have assumed that: (i) all material assets and liabilities (contingent or otherwise, known or unknown) of the Target and the Company are as set forth in the their respective financial statements; (ii) the financial statements of the Target and the Company provided to us present fairly the results of operations, cash flows and financial condition of the Target and the Company, respectively, for the periods indicated and were prepared in conformity with U.S. generally accepted accounting principles consistently applied; (iii) the Forecasts for the Target and the Company were reasonably prepared on bases reflecting the best available estimates and good faith judgments of the Company's senior management as to the future performance of the Target and the Company, and such Forecasts will be achieved; (iv) the Transaction will be consummated in accordance with the terms and conditions of the Agreement without any amendment thereto and without waiver by any party of any of the conditions to its obligations thereunder; (v) in all respects material to our analysis, the representations and warranties contained in the Agreement are true and correct and that each party will perform all of the covenants and agreements required to be performed by it under such Agreement; (vi) all material corporate, governmental, regulatory or other consents and approvals required to consummate the Transaction have been or will be obtained without the need for divestitures. We have relied as to all legal matters regarding the Transaction on the advice of counsel of the Company. In conducting our review, we have not undertaken nor obtained an independent evaluation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Target nor have we made a physical inspection of the properties or facilities of the Target. In each case, we have made the assumptions and otherwise acted as described above with your consent.

Our opinion necessarily is based upon economic, monetary and market conditions as they exist and can be evaluated on the date hereof, and our opinion does not predict or take into account any changes which may occur, or information which may become available, after the date hereof. Furthermore, we express no opinion as to the price or trading range at which any of the Target's or the Company's securities (including the Target's common stock and the Company's common stock) will trade following the date hereof.

Our opinion has been prepared at the request and for the information of the Board of Directors of the Company. This opinion does not address the relative merits of: (i) the Transaction, the Agreement or any other agreements or other matters provided for or contemplated by the Agreement; (ii) any other transactions that may be or might have been available as an alternative to the Transaction; or (iii) the Transaction compared to any other potential alternative transactions or business strategies considered by the Company's Board of Directors. This opinion does not constitute a recommendation to any stockholder of the Company as to how any such stockholder should vote with respect to the Transaction.

We have acted as financial advisor to the Company in connection with the Transaction and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Transaction. We will also receive a fee for rendering this opinion. In addition, the Company has agreed to indemnify us against certain liabilities that may arise out of our engagement. We will not receive any other significant payment or compensation contingent upon the successful completion of the Transaction. In the past, we have provided investment banking services to the Company, for which we received our customary compensation. Specifically, Baird served as lead underwriter for the Company's $20 million follow-on equity offering in November 2006. Baird has also regularly been consulted by the Company on general corporate finance and strategic matters, and may be engaged by the Company on future matters.

We are a full service securities firm. As such, in the ordinary course of our business, we may from time to time trade the securities of the Company or the Target for our own account or the accounts of our customers and, accordingly, may at any time hold long or short positions or effect transactions in such securities. Our firm may also prepare equity analyst research reports from time to time regarding the Company.

Our opinion was approved by a fairness committee, a majority of the members of which were not involved in providing financial advisory services on our behalf to the Company in connection with the Transaction.

Based upon and subject to the foregoing, including the various assumptions and limitations set forth herein, we are of the opinion that, as of the date hereof, the Exchange Ratio is fair, from a financial point of view, to the Company.

Very truly yours,

ROBERT W. BAIRD & CO. INCORPORATED

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HOULIHAN LOKEY

April 17, 2009

Board of Directors
Florida Public Utilities Co.
401 South Dixie Highway
West Palm Beach, FL 33401
Dear Members of the Board of Directors:

We understand that Florida Public Utilities Co. (the "Company") intends to enter into an Agreement and Plan of Merger (the "Agreement") among Chesapeake Utilities Corporation ("Chesapeake"), Merger Sub, a wholly owned subsidiary of Chesapeake ("Merger Sub"), and the Company, pursuant to which, among other things, the Company will merge with Merger Sub (the "Transaction"), and that, in connection with the Transaction, each outstanding share of common stock, par value $1.50 per share ("Company Common Stock"), of the Company will be converted into the right to receive 0.405 of a share (the "Exchange Ratio") of common stock, par value $0.4867 per share ("Chesapeake Common Stock"), of Chesapeake and the Company will become a wholly owned subsidiary of Chesapeake.

You have requested that Houlihan Lokey Howard & Zukin Capital, Inc. ("Houlihan Lokey") provide an opinion (the "Opinion") to the Board of Directors of the Company as to whether, as of the date hereof, the Exchange Ratio provided for in the Transaction pursuant to the Agreement is fair to the holders of Company Common Stock from a financial point of view.

In connection with this Opinion, we have made such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we have:

1. reviewed a draft, dated April 15, 2009, of the Agreement;

2. reviewed certain publicly available business and financial information relating to the Company and Chesapeake that we deemed to be relevant;

3. reviewed certain information relating to the current and future operations, financial condition and prospects of the Company and Chesapeake made available to us by managements of the Company and Chesapeake, respectively, including financial projections prepared by the managements of the Company and Chesapeake relating to the future financial performance of the Company and Chesapeake, respectively;

4. spoken with certain members of the managements of the Company and Chesapeake and certain of their representatives and advisors regarding the respective businesses, operations, financial condition and prospects of the Company and Chesapeake, the Transaction and related matters;

5. compared the financial and operating performance of the Company and Chesapeake with that of other public companies that we deemed to be relevant;

6. reviewed the current and historical market prices and trading volume for the Company's and Chesapeake's publicly traded securities, and the historical market prices and certain financial data of the publicly traded securities of certain other companies that we deemed to be relevant;

7. compared the relative contributions of the Company and Chesapeake to estimates of certain financial statistics of the combined company resulting from the Transaction on a pro forma basis;

8. reviewed certain potential pro forma financial effects of the Transaction; and

9. conducted such other financial studies, analyses and inquiries and considered such other information and factors as we deemed appropriate.

We have relied upon and assumed, without independent verification, the accuracy and completeness of all data, material and other information furnished, or otherwise made available, to us, discussed with or reviewed by us, or publicly available, and do not assume any responsibility with respect to such data, material and other information. In addition, managements of the Company and Chesapeake have advised us, and we have assumed, that the financial projections reviewed by us have been reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of such managements as to the future financial results and condition of the Company and Chesapeake, and we express no opinion with respect to such projections or the assumptions on which they are based. We have relied upon and assumed, without independent verification, that there has been no material change in the business, assets, liabilities, financial condition, results of operations, cash flows or prospects of the Company or Chesapeake since the date of the most recent financial statements provided to us, and that there is no information or any facts that would make any of the information reviewed by us incomplete or misleading. We have not considered any aspect or implication of any transaction to which the Company or Chesapeake may be a party (other than as specifically described herein with respect to the Transaction).

We have relied upon and assumed, without independent verification, that (a) the representations and warranties of all parties to the Agreement and all other related documents and instruments that are referred to therein are true and correct, (b) each party to the Agreement and other related documents and instruments will fully and timely perform all of the covenants and agreements required to be performed by such party, (c) all conditions to the consummation of the Transaction will be satisfied without waiver thereof, and (d) the Transaction will be consummated in a timely manner in accordance with the terms described in the agreements and documents provided to us, without any amendments or modifications thereto. We have also assumed, with your consent, that the Transaction will be treated as a tax-free reorganization for U.S. federal income tax purposes. We also have relied upon and assumed, without independent verification, that (i) the Transaction will be consummated in a manner that complies in all respects with all applicable federal and state statutes, rules and regulations, and (ii) all governmental, regulatory, and other consents and approvals necessary for the consummation of the Transaction will be obtained and that no delay, limitations, restrictions or conditions will be imposed or amendments, modifications or waivers made that would result in the disposition of any material portion of the assets of the Company or Chesapeake, or otherwise have an adverse effect on the Company or Chesapeake or any expected benefits of the Transaction. In addition, we have relied upon and assumed, without independent verification, that the final form of the Agreement will not differ in any material respect from the draft of the Agreement identified above.

Furthermore, in connection with this Opinion, we have not been requested to make, and have not made, any physical inspection or independent appraisal of any of the assets, properties or liabilities (fixed, contingent, derivative, off-balance-sheet or otherwise) of the Company, Chesapeake or any other party, nor were we provided with any such appraisal. We did not estimate, and express no opinion regarding, the liquidation value of any entity. We have undertaken no independent analysis of any potential or actual litigation, regulatory action, possible unasserted claims or other contingent liabilities, to which the Company or Chesapeake is or may be a party or is or may be subject, or of any governmental investigation of any possible unasserted claims or other contingent liabilities to which the Company or Chesapeake is or may be a party or is or may be subject.

We have not been requested to, and did not, solicit indications of interest from, third parties with respect to the Transaction, the assets, businesses or operations of the Company, or any alternatives to the Transaction. This Opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof. This Opinion is being rendered during a period of unusual volatility in the financial markets and necessarily assumes the absence of further material changes in the financial, economic and market conditions from those prevailing on the date hereof. We have not undertaken, and are under no obligation, to update, revise, reaffirm or withdraw this Opinion, or otherwise comment on or consider events occurring after the date hereof. We are not expressing any opinion as to what the value of Chesapeake Common Stock actually will be when issued pursuant to the Transaction or the price or range of prices at which Company Common Stock or Chesapeake Common Stock may be purchased or sold at any time. We have assumed that the shares of Chesapeake Common Stock to be issued in the Transaction will be listed on the New York Stock Exchange.

This Opinion is furnished for the use and benefit of the Board of Directors of the Company in connection with its consideration of the Transaction and may not be used for any other purpose without our prior written consent. This Opinion should not be construed as creating any fiduciary duty on Houlihan Lokey's part to any party. This Opinion is not intended to be, and does not constitute, a recommendation to the Board of Directors of the Company, any security holder of the Company or any other person as to how to act or vote with respect to any matter relating to the Transaction.

In the ordinary course of business, certain of our affiliates, as well as investment funds in which they may have financial interests, may acquire, hold or sell, long or short positions, or trade or otherwise effect transactions, in debt, equity, and other securities and financial instruments (including loans and other obligations) of, or investments in, the Company, Chesapeake, or any other party that may be involved in the Transaction and their respective affiliates or any currency or commodity that may be involved in the Transaction.

Houlihan Lokey and its affiliates may in the future provide investment banking, financial advisory and other financial services to the Company, Chesapeake and other participants in the Transaction and certain of their respective affiliates for which Houlihan Lokey and such affiliates may receive compensation.

Houlihan Lokey has also acted as financial advisor to the Company in connection with the Transaction and will receive a fee for such services, a significant portion of which is contingent upon the consummation of the Transaction. In addition, we will receive a fee for rendering this Opinion, which is not contingent upon the successful completion of the Transaction. The Company has also agreed to reimburse certain of our expenses and to indemnify us and certain related parties for certain potential liabilities arising out of our engagement.

This Opinion only addresses whether the Exchange Ratio provided for in the Transaction pursuant to the Agreement is fair to the holders of Company Common Stock from a financial point of view. We have not been requested to opine as to, and this Opinion does not in any manner address, among other things: (i) the underlying business decision of the Company, Chesapeake, their respective security holders or any other party to proceed with or effect the Transaction or the value of the consideration to be received by the holders of Company Common Stock in the Transaction as compared to the value of the consideration that could be obtained pursuant to any alternative transaction that may exist for the Company, (ii) the terms of any arrangements, understandings, agreements or documents related to, or the form or any other portion or aspect of, the Transaction or otherwise (other than the Exchange Ratio to the extent expressly specified herein), (iii) the fairness of any portion or aspect of the Transaction to the holders of any class of securities, creditors or other constituencies of the Company or Chesapeake, or to any other party, except as set forth in this Opinion, (iv) the relative merits of the Transaction as compared to any alternative business strategies that might exist for the Company, Chesapeake or any other party or the effect of any other transaction in which the Company, Chesapeake or any other party might engage, (v) the fairness of any portion or aspect of the Transaction to any one class or group of the Company's or any other party's security holders vis-à-vis any other class or group of the Company's or such other party's security holders (including without limitation the allocation of any consideration amongst or within such classes or groups of security holders), (vi) whether or not the Company, Chesapeake, their respective security holders or any other party is receiving or paying reasonably equivalent value in the Transaction, (vii) the solvency, creditworthiness or fair value of the Company, Chesapeake or any other participant in the Transaction under any applicable laws relating to bankruptcy, insolvency, fraudulent conveyance or similar matters, or (viii) the fairness, financial or otherwise, of the amount or nature of any compensation to or consideration payable to or received by any officers, directors or employees of any party to the Transaction, any class of such persons or any other party, relative to the Exchange Ratio or otherwise. Furthermore, no opinion, counsel or interpretation is intended in matters that require legal, regulatory, accounting, insurance, tax or other similar professional advice. It is assumed that such opinions, counsel or interpretations have been or will be obtained from the appropriate professional sources. Furthermore, we have relied, with your consent, on the assessment by the Company, Chesapeake and their respective advisers, as to all legal, regulatory, accounting, insurance and tax matters with respect to the Company, Chesapeake and the Transaction. The issuance of this Opinion was approved by a committee of Houlihan Lokey authorized to approve opinions of this nature.

Based upon and subject to the foregoing, and in reliance thereon, it is our opinion that, as of the date hereof, the Exchange Ratio provided for in the Transaction pursuant to the Agreement is fair to the holders of Company Common Stock from a financial point of view.

Very truly yours,

HOULIHAN LOKEY HOWARD & ZUKIN CAPITAL, INC.