

November 16, 2012

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**BY HAND DELIVERY**

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

120292-GU


**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 Places on Short Term Borrowings in 2013**

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, 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 Places on Short Term Borrowings in 2013, 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.

Sincerely,

  
Beth Keating  
Gunster, Yoakley, & Stewart, P.A.  
215 S. Monroe St., Suite 601  
Tallahassee, FL 32301  
(850) 521-1706

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cc: Office of Public Counsel

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Application by Chesapeake Utilities )  
Corporation for Authorization to Issue Common )  
Stock, Preferred Stock and Secured and/or )  
Unsecured Debt, and to Enter into Agreements )  
For Interest Rate Swap Products, Equity )  
Products and Other Financial Derivatives and to )  
Exceed Limitation Placed on Short-Term )  
Borrowings in 2013 )

120292-GU

**APPLICATION BY CHESAPEAKE UTILITIES CORPORATION FOR  
AUTHORIZATION TO ISSUE COMMON STOCK, PREFERRED STOCK AND  
SECURED AND/OR UNSECURED DEBT, AND TO ENTER INTO  
AGREEMENTS FOR INTEREST RATE SWAP PRODUCTS, EQUITY  
PRODUCTS AND OTHER FINANCIAL DERIVATIVES, AND TO EXCEED  
LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 2013**

Chesapeake Utilities Corporation (Chesapeake, the Company or Applicant) respectfully files this Application, pursuant to Section 366.04 (1), Florida Statutes, seeking authority in 2013 to issue up to 5,868,334 shares of Chesapeake common stock; up to 1,000,000 shares of Chesapeake preferred stock; up to \$137,000,000 in secured and/or unsecured debt; to enter into agreements for up to \$70,000,000 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 2013, in an amount not to exceed \$140,000,000.

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

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c) Florida Public Utilities Company (a wholly owned subsidiary of Chesapeake Utilities Corporation)  
1641 Worthington Road  
Suite 220  
West Palm Beach, FL 33409

d) Indiantown Gas Company  
1641 Worthington Road  
Suite 220  
West Palm Beach, FL 33409

2. Incorporated:

Chesapeake Utilities Corporation – Incorporated under the laws of the state of Delaware in 1947 and qualified to do business in Florida, Maryland, and Pennsylvania

Florida Public Utilities Company – Incorporated under the laws of the state of Florida in 1924 and qualified to do business in Florida

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

Beth Keating, Esquire  
Gunster, Yoakley & Stewart, P.A.  
Suite 601  
215 South Monroe Street  
Tallahassee, Florida 32301  
(850) 521-1706

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: 25,000,000 shares.
- c) Amount outstanding as of June 30, 2012 : 9,586,159
- 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, 2012: 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 Chesapeake Utilities Corporation 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, 2012, there is a remaining balance of \$1,038,000 for this issue.

- (a) 2 Chesapeake Utilities Corporation 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, 2012, there is a remaining balance of \$6,000,000 for this issue.
- (a) 3 Chesapeake Utilities Corporation 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, 2012, there is a remaining balance of \$16,363,637 for this issue.
- (a) 4 Chesapeake Utilities Corporation 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, 2012, there is a remaining balance of \$18,000,000 for this issue.
- (a) 5 Chesapeake Utilities Corporation 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, 2012, there is a balance of \$30,000,000 for this issue.

- (a) 6 Chesapeake Utilities Corporation 5.68% Unsecured Senior Notes due June 30, 2026 and issued on June 23, 2011 in the principal amount of \$29,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to June 30, 2016; thereafter, principal shall be payable, in addition to interest on the unpaid balance for ten (10) years at the rate of \$2,900,000 per annum. As of June 30, 2012, there is a balance of \$29,000,000 on this issue.
  
- (a) 7 Florida Public Utilities Company 9.57% Secured First Mortgage Bonds due May 1, 2018 and issued on May 1, 1988 in the principal amount of \$10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to May 1, 2008; thereafter, principal shall be payable, in addition to interest on the unpaid balance for eleven (11) years at the rate of \$909,091 per annum. Accordingly, as of June 30, 2012, there is a balance of \$5,455,000 for this issue.
  
- (a) 8 Florida Public Utilities Company 10.03% Secured First Mortgage Bonds due May 1, 2018 and issued on May 1, 1988 in the principal amount of \$5,500,000 bearing interest payable semi-annually with provisions for payment of interest only prior to May 1, 2008;

thereafter, principal shall be payable, in addition to interest on the unpaid balance for eleven (11) years at the rate of \$500,000 per annum. Accordingly, as of June 30, 2012, there is a balance of \$3,000,000 for this issue.

- (a) 9 Florida Public Utilities Company 9.08% Secured First Mortgage Bonds due June 1, 2022 and issued on June 1, 1992 in the principal amount of \$8,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to June 1, 2022; thereafter, principal shall be payable in full. Accordingly, as of June 30, 2012, there is a balance of \$8,000,000 for this issue.

As of the filing date, Chesapeake has five unsecured bank lines of credit with two commercial lenders. Chesapeake currently maintains a total short-term borrowing line capacity of \$140,000,000. The Company has committed short-term borrowing capacity of \$100,000,000 (held through three separate lines of credit with two lenders), and uncommitted short-term borrowing capacity of \$40,000,000 (held through two separate lines of credit of \$20,000,000 each with two lenders). As of June 30, 2012, the total short-term borrowing outstanding under the bank lines of credit was \$11,516,101.

5. Authorizations Requested

Chesapeake requests authorization from the FPSC to issue up to 368,334 new shares of its common stock during 2013 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:

<u>Number of Shares</u>	<u>Purpose</u>
70,000	Issuance pursuant to the Company's Retirement Savings Plan.
100,000	Issuance under the terms of the Company's Performance Incentive Plan.
120,000	Issuance pursuant to the Company's Dividend Reinvestment and Stock Purchase Plan.
61,023	Issuance under the terms of the Company's outstanding 8 ¼% Convertible Debentures.
12,311	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 500,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2013 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 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 \$77,000,000 in secured an/or unsecured debt during 2013 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 2013 to issue up to 5,000,000 shares of common stock and up to \$60,000,000 in secured and/or unsecured debt for possible acquisitions. 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 \$140,000,000 during 2013. 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 2013, 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 from 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 2013 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 2013, 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 \$70,000,000.

Chesapeake Utilities Corporation allocates funds to the Florida Division, Florida Public Utilities and Indiantown Gas Company on an as-needed basis.

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, 2012, the RSP had 693 active participants; a total market valuation of approximately \$68,516,085 and 487,808 shares of the Company's common stock. Chesapeake's 401k Plan was amended to be a "safe harbor" plan. Effective January 1, 2011 the Company matches 100% of the participants' contributions up to six percent of the eligible compensation in cash and any supplemental contributions will generally be made in Chesapeake stock. Prior to January 1, 2011 the Company match was primarily made in Chesapeake stock. In conjunction with the adoption of a "safe harbor" plan, the plan document was amended.

As of June 30, 2011, FPU's 401k Plan had 372 active participants; a total market value of approximately \$12,253,042 and no shares of the Company's

common stock. As of January 1, 2012, we consolidated the Chesapeake and FPU 401k plans.

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. On May 4, 2010, the Delaware Public Service Commission issued Order No. 7769 approving the issuance of an additional 600,000 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 the order was previously filed with the FPSC as Exhibit C of Docket No. 100444-GU dated November 16, 2010. Pursuant to these Orders, Chesapeake has issued 519,516 new shares of common stock for the RSP as of June 30, 2012. Thus, there remains to be issued 580,484 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 70,000 shares of common stock for the Plan during 2012 by Order No. PSC-11-0589-FOF-GU issued on December 22, 2011. Chesapeake now seeks FPSC authorization to issue up to 70,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Plan during 2013.

(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 current PIP, Chesapeake has issued 82,215 shares of common stock as of June 30, 2012. Thus, there remains to be issued 317,785 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 100,000 shares of



common stock for the PIP during 2012 by Order No. PSC-11-0589-FOF-GU, issued on December 22, 2011. 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 2013. The 100,000 shares should be adequate to cover any shares issued in 2013 pursuant to awards granted to executives and other key officers of the Company and its subsidiaries for performance periods ending December 31, 2012.

(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, 2012, the DRP had 1,784 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. Our current Registration Statement was filed December 21, 2011, and amended January 6, 2012 and January 10, 2012, with the Securities and Exchange Commission to continue the plan. Copies of the Form S-3 and amendments as filed are included herein as Exhibit A(3).

Pursuant to the Orders above, Chesapeake has issued 703,657 new shares of common stock as of June 30, 2012. Thus, there remains to be issued 546,343 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 120,000 shares for the DRP during 2012 by Order PSC-11-0589-FOF-GU, issued on December 22, 2011.

Chesapeake now seeks FPSC approval to issue up to 120,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's amended Dividend Reinvestment and Stock Purchase Plan during 2013.

(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, 2012, \$1,038,000 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 61,023. 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, 2012, a cumulative \$3,030,000 of the Convertible Debentures has been converted. The FPSC approved the issuance and sale of up to 65,782 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 2012, by Order No.PSC -11 0589- FOF- GU, issued on December 22, 2011. Chesapeake now seeks FPSC authorization to issue up to 61,023 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 2013

(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 15,000 shares of common stock for the DSCP during 2012 by Order PSC-11-0589-FOF-GU, issued on December 22, 2011. Pursuant to the DSCP, Chesapeake has issued a cumulative 62,689 new shares of common stock as of June 30, 2012. Thus, there remains to be issued 12,311 shares as previously authorized by the Delaware Public Service Commission.

Chesapeake now seeks FPSC authorization to issue up to 12,311 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DSCP during 2013. The 12,311 shares should be adequate to cover any awards granted to non-employee directors of the Company in 2013.

(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 2012 by Order No. PSC-11-0589-FOF-GU, issued December 22, 2011. Pursuant to the ESAP, Chesapeake has issued a cumulative 1,900 shares of common stock as of June 30, 2011. Thus, there remains to be issued 23,100 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 2012. The 5,000 shares should be adequate to cover any awards granted to managers and employees of the Company and its subsidiaries in 2013.

(g) Chesapeake now seeks FPSC approval to issue up to 500,000 shares of Chesapeake stock or an equity-linked instrument equivalent in value in 2013 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 500,000 shares of common stock for Chesapeake during 2012 by Order No. PSC-11-0589-FOF-GU, issued December 22, 2011.

(h) Chesapeake seeks FPSC authorization to issue during 2013 up to \$137,000,000 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. The FPSC approved the issuance and sale of \$120,000,000 in secured and/or unsecured long-term debt during 2012 by Order No. PSC-11-0589-FOF-GU, issued December 22, 2011. The remaining 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.

(i) Chesapeake seeks further FPSC authorization to issue during 2013 up to an additional 5,000,000 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 5,000,000 shares of common stock and \$60,000,000 in secured and/or unsecured long-term debt for this purpose during 2011 by Order No. PSC-11-0589-FOF-GU, issued December 22, 2011.

(j) Chesapeake seeks FPSC authorization to issue up to 1,000,000 shares of Chesapeake preferred stock during 2013 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 2010, Docket No. 080635-GU, dated November 19, 2008, and are hereby incorporated by reference. As of June 30, 2012, 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 2012 Order No. PSC-11-0589-FOF-GU, issued December 22, 2011.

(k) Chesapeake is also requesting authority during 2013 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 \$70,000,000. 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, Gunster, Yoakley & Stewart, Suite 601, 215 South Monroe Street, 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: William O'Brien, 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, 080635-GU, 09487-GU, 100444-GU, and 110304-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).

Docket No. 09487-GU

- 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.

Docket No. 100444-GU

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, 2009.

A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2010.

Exhibit B: Amended and Restated Certificate of Incorporation dated July 22, 2010.

Exhibit C: Delaware Public Service Commission issued Order No. 7769 dated May 4, 2010 approving the issuance of an additional 600,000 new shares of Chesapeake common stock for the purpose of administering the RSP.

Exhibit D: Delaware Public Service Commission issued Order No. 7787 dated June 30, 2010 approving the issuance of \$36,000,000 of unsecured senior notes to refinance FPU First Mortgage Bonds acquired in the merger.

Docket No. 110304-GU

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, 2010.

A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2011.

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

- A (1) Chesapeake Utilities Corporation Annual Report on Form 10-K (A) for the year ended December 31, 2011.
- A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
- A (3) Form S – 3 and Amendments

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.

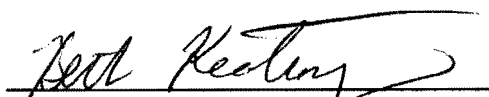
Florida law provides for severe penalties for any willful violation of a statute administered by the FPSC or any of its rules or orders, Secs. 350.127 (1) and 366.095, Florida Statutes. Accordingly, Chesapeake believes it must submit to FPSC jurisdiction over its securities if it is to avoid assessment 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 2012 to issue up to 5,868,334 shares of common stock, up to 1,000,000 shares of preferred stock, and up to \$137,000,000 of secured and/or unsecured debt, and authorizing it to enter into agreements up to \$70,000,000 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 \$140,000,000 in short-term obligations.

Respectfully submitted,

Date: November 16, 2012



Beth Keating, Esquire  
Gunster, Yoakley & Stewart, P.A.  
Suite 601  
215 South Monroe Street  
Tallahassee, Florida 32301  
(850) 521-1706

Attorneys for  
Chesapeake Utilities Corporation

STATE OF DELAWARE \*  
\*  
COUNTY OF KENT \* SS

BE IT REMEMBERED that on this the day of *November 15, 2012*, 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.

*Shya Burrows*

Notary Public  
My Commission Expires:



INSTRUMENT 37 INDEX DATE  
07716 NOV 16 2012

FPSC-COMMISSION CLERK

## EXHIBITS

- A (1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 2011.
- A (2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2012.
- A (3) Form S – 3 and Amendments

10-K/A 1 d315535d10ka.htm FORM 10-K/A

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-K/A**  
Amendment No. 1

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

**For the Fiscal Year Ended: December 31, 2011**

**Commission File Number: 001-11590**

**CHESAPEAKE UTILITIES CORPORATION**

(Exact name of registrant as specified in its charter)

**State of Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0064146**  
(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 \$0.4867	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 .

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes . No .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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.

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

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 .

The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation as of June 30, 2011, 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 \$382.8 million.

As of February 29, 2012 9,576,780 shares of common stock were outstanding.

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#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2012 Annual Meeting of Stockholders are incorporated by reference in Part II and Part III.

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**EXPLANATORY NOTE**

This Amendment No. 1 on Form 10-K/A ("Amendment") to Chesapeake Utilities Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, originally filed with the Securities and Exchange Commission on March 7, 2012 (the "Original Filing"), is being filed for the sole purpose of amending the Exhibits contained in Item 15(a)(3) of Part IV to include Exhibit 10.33, which was inadvertently omitted in the Original Filing. Except as described above, no other changes have been made to the Original Filing, and this Amendment does not modify, amend or update in any way any of the financial or other information contained in the Original Filing. This Amendment does not reflect events that may have occurred subsequent to the filing date of the Original Filing.

Pursuant to Rule 12b-15 promulgated under the Securities Exchange Act of 1934, as amended, this Amendment also contains new certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which are attached hereto.

**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 <sup>(1)</sup>;
- Consolidated Statements of Income for each of the three years ended December 31, 2011, 2010, and 2009<sup>(1)</sup>;
- Consolidated Statements of Comprehensive Income for each of the three years ended December 31, 2011, 2010, and 2009<sup>(1)</sup>;
- Consolidated Balance Sheets at December 31, 2011 and December 31, 2010<sup>(1)</sup>;
- Consolidated Statements of Cash Flows for each of the three years ended December 31, 2011, 2010, and 2009<sup>(1)</sup>;
- Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2011, 2010, and 2009<sup>(1)</sup>; and
- Notes to the Consolidated Financial Statements. <sup>(1)</sup>

**2. Financial Statement Schedules:**

- Report of Independent Registered Public Accounting Firm <sup>(1)</sup>; and
- Schedule II - Valuation and Qualifying Accounts <sup>(1)</sup>.

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, 2006 relating to the sale and issuance of 600,300 shares of Chesapeake's common stock, is incorporated herein by reference to Exhibit 1.1 of our Current Report on Form 8-K, filed November 16, 2006, File No. 001-11590.
- Exhibit 2.1 Agreement and Plan of Merger between Chesapeake Utilities Corporation and Florida Public Utilities Company dated April 17, 2009, is incorporated herein by reference to Exhibit 2.1 of our Current Report on Form 8-K, filed April 20, 2009, File No. 001-11590.
- Exhibit 3.1 Amended and Restated Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of our Quarterly Report on Form 10-Q for the period ended June 30, 2010, File No. 001-11590.
- Exhibit 3.2 Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective April 7, 2010,

are incorporated herein by reference to Exhibit 3 of the Company's Current Report on Form 8-K, filed April 13, 2010, File No. 001-11590.

- Exhibit 4.1 Form of Indenture between Chesapeake 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 our Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.

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- Exhibit 4.2 Note Purchase Agreement, entered into by the Company on October 2, 1995, pursuant to which Chesapeake privately placed \$10 million of its 6.91% Senior Notes, paid off in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. We hereby agree to furnish a copy of that agreement to the SEC upon request.
  - Exhibit 4.3 Note Purchase Agreement, entered into by Chesapeake on December 15, 1997, pursuant to which Chesapeake privately placed \$10 million of its 6.85% Senior Notes due in 2012, is incorporated by reference to Exhibit 4.3 of our Annual Report on Form 10-K for the year ended December 31, 2009, File No. 001-11590.
  - Exhibit 4.4 Note Purchase Agreement entered into by Chesapeake on December 27, 2000, pursuant to which Chesapeake privately placed \$20 million of its 7.83% Senior Notes, due in 2015, is incorporated by reference to Exhibit 4.4 of our Annual Report on Form 10-K for the year ended December 31, 2009, File No. 001-11590.
  - Exhibit 4.5 Note Agreement entered into by Chesapeake on October 31, 2002, pursuant to which Chesapeake privately placed \$30 million of its 6.64% Senior Notes, due in 2017, is incorporated herein by reference to Exhibit 2 of our Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.
  - Exhibit 4.6 Note Agreement entered into by Chesapeake on October 18, 2005, pursuant to which Chesapeake, 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 our 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 Chesapeake on October 31, 2008, pursuant to which Chesapeake, 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 incorporated by reference to Exhibit 4.7 of our Annual Report on Form 10-K for the year ended December 31, 2009, File No. 001-11590.
  - Exhibit 4.8 Form of Indenture of Mortgage and Deed of Trust between Florida Public Utilities Company and the trustee, dated September 1, 1942 for the First Mortgage Bonds, is incorporated herein by reference to Exhibit 7-A of Florida Public Utilities Company's Registration No. 2-6087.
  - Exhibit 4.9 Seventeenth Supplemental Indenture entered into by Chesapeake Utilities Corporation and Florida Public Utilities Company, on April 12, 2011, pursuant to which Chesapeake Utilities Corporation guarantees the payment and performance obligations of Florida Public Utilities Company under the Indenture, is incorporated herein by reference to Exhibit 4.1 of our Quarterly Report on Form 10-Q for the period ended March 31, 2011, File No. 001-11590.
  - Exhibit 4.10 Sixteenth Supplemental Indenture entered into by Chesapeake Utilities Corporation and Florida Public Utilities Company, on December 1, 2009, pursuant to which Chesapeake Utilities Corporation, on December 1, 2009 guaranteed the secured First Mortgage Bonds of Florida Public Utilities Company under the Merger Agreement, is incorporated herein by reference to Exhibit 4.9 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.

- Exhibit 4.11 Fifteenth Supplemental Indenture entered into by Florida Public Utilities Company on November 1, 2001, pursuant to which Florida Public Utilities Company, on November 1, 2001, privately placed \$14,000,000 of its 4.90% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4(c) of Florida Public Utilities Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-10608.
- Exhibit 4.12 Fourteenth Supplemental Indenture entered into by Florida Public Utilities Company on September 1, 2001, pursuant to which Florida Public Utilities Company, on September 1, 2001, privately placed \$15,000,000 of its 6.85% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4(b) of Florida Public Utilities Company's Annual Report on Form 10-K for the year ended December 31, 2001, File No. 001-10608.
- Exhibit 4.13 Thirteenth Supplemental Indenture entered into by Florida Public Utilities Company on June 1, 1992, pursuant to which Florida Public Utilities, on May 1, 1992, privately placed \$8,000,000 of its 9.08% First Mortgage Bonds, is incorporated herein by reference to Exhibit 4 to Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 1992.
- Exhibit 4.14 Twelfth Supplemental Indenture entered into by Florida Public Utilities on May 1, 1988, pursuant to which Florida Public Utilities Company, on May 1, 1988, privately placed \$10,000,000 and \$5,000,000 of its 9.57% First Mortgage Bonds and 10.03% First Mortgage Bonds, respectively, are incorporated herein by reference to Exhibit 4 to Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 1988.
- Exhibit 4.15 Term Note Agreement entered into by Chesapeake Utilities Corporation on March 16, 2010, pursuant to the \$29 million credit facility with PNC Bank, N.A., is incorporated herein by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended March 31, 2010, File No. 001-11590.
- Exhibit 10.1\* Chesapeake Utilities Corporation Cash Bonus Incentive Plan, dated January 1, 2005, is incorporated herein by reference to Exhibit 10.3 of our 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 our Proxy Statement dated March 28, 2005, in connection with our 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 our Proxy Statement dated March 28, 2005, in connection with our 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 our Proxy Statement dated March 28, 2005, in connection with our Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.5\* Chesapeake Utilities Corporation Deferred Compensation Plan, amended and restated as of January 1, 2009, is incorporated herein by reference to Exhibit 10.5 of our Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.
- Exhibit 10.6\* First Amendment to the Chesapeake Utilities Corporation Deferred Compensation Plan, dated December 28, 2010, is incorporated herein by reference to Exhibit 10.6 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.

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- Exhibit 10.7 Consulting Agreement dated January 3, 2011, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.8 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.
  - Exhibit 10.8\* Executive Employment Agreement dated January 14, 2011, by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed January 21, 2011, File No. 001-11590.
  - Exhibit 10.9\* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.3 of our Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.
  - Exhibit 10.10\* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.4 of our Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.
  - Exhibit 10.11\* Executive Employment Agreement dated December 31, 2009, by and between Chesapeake Utilities Corporation and Joseph Cummiskey, is incorporated herein by reference to Exhibit 10.5 of our Current Report on Form 8-K, filed January 7, 2010, File No. 001-11590.
  - Exhibit 10.12\* Executive Employment Agreement dated March 3, 2011, by and between Chesapeake Utilities Corporation and Elaine B. Bittner, is incorporated herein by reference to Exhibit 10.13 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.
  - Exhibit 10.13\* Amendment to Executive Employment Agreement, effective January 1, 2012, by and between Chesapeake Utilities Corporation and Elaine B. Bittner. <sup>(1)</sup>
  - Exhibit 10.14\* Form of Performance Share Agreement effective January 7, 2009 for the period 2009 to 2011, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.26 on Form 10-K for the year ended December 31, 2008, File No. 001-11590.
  - Exhibit 10.15\* Form of Performance Share Agreement effective January 6, 2010 for the period 2010 to 2012, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson, and Joseph Cummiskey is incorporated herein by reference to Exhibit 10.24 on Form 10-K for the year ended December 31, 2009, File No. 001-11590.
  - Exhibit 10.16\* Performance Share Agreement dated January 20, 2010 for the period 2010 to 2011, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Joseph Cummiskey is incorporated herein by reference to Exhibit 10.24 on Form 10-K for the year ended December 31, 2009, File No. 001-11590.

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- Exhibit 10.17\* Form of Performance Share Agreement effective January 14, 2011 for the period 2011 to 2013, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Beth W. Cooper, Stephen C. Thompson, Joseph Cumiskey, and Elaine B. Bittner, is incorporated herein by reference to Exhibit 10.2 of our Current Report on Form 8-K, filed January 21, 2011, File No. 001-11590.
  - Exhibit 10.18\* Form of Performance Share Agreement effective January 14, 2011 for the period 2011 to 2012, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters and Elaine B. Bittner, is incorporated herein by reference to Exhibit 10.28 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.
  - Exhibit 10.19\* Chesapeake Utilities Corporation Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.27 of our Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.
  - Exhibit 10.20\* First Amendment to the Chesapeake Utilities Corporation Supplemental Executive Retirement Plan as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.30 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-11590.
  - Exhibit 10.21\* Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan, as amended and restated effective January 1, 2009, is incorporated herein by reference to Exhibit 10.28 of our Annual Report on Form 10-K for the year ended December 31, 2008, File No. 001-11590.
  - Exhibit 10.22\* First Amendment to the Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan, dated October 28, 2010, is incorporated herein by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended September 30, 2010, File No. 001-11590.
  - Exhibit 10.23 Amended and Restated Electric Service Contract between Florida Public Utilities Company and JEA dated November 6, 2008, is incorporated herein by reference to Exhibit 10.1 of Florida Public Utilities Company's Current Report on Form 8-K, filed on November 6, 2008, File No. 001-10908.
  - Exhibit 10.24 Networking Operating Agreement between Florida Public Utilities Company and Southern Company Services, Inc. dated December 27, 2007 and amended on June 3, 2008, is incorporated herein by reference to Exhibit 10.3 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008, File No. 001-10608.
  - Exhibit 10.25 Network Integration Transmission Service Agreement between Florida Public Utilities Company and Southern Company Services, Inc. dated December 27, 2007 and amended on June 3, 2008, is incorporated herein by reference to Exhibit 10.4 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended June 30, 2008, File No. 001-10608.

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- Exhibit 10.26 Form of Service Agreement for Firm Transportation Service between Florida Public Utilities Company and Florida Gas Transmission Company, LLC dated November 1, 2007 for the period November 2007 to February 2016 (Contract No. 107033), is incorporated herein by reference to Exhibit 10.1 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007, File No. 001-10608.
  - Exhibit 10.27 Form of Service Agreement for Firm Transportation Service between Florida Public Utilities Company and Florida Gas Transmission Company, LLC dated November 1, 2007 for the period November 2007 to March 2022 (Contract No. 107034), is incorporated herein by reference to Exhibit 10.2 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007, File No. 001-10608.
  - Exhibit 10.28 Form of Service Agreement for Firm Transportation Service between Florida Public Utilities Company and Florida Gas Transmission Company, LLC dated November 1, 2007 for the period November 2007 to February 2022 (Contract No. 107035), is incorporated herein by reference to Exhibit 10.3 of Florida Public Utilities Company's Quarterly Report on Form 10-Q for the period ended September 30, 2007, File No. 001-10608.
  - Exhibit 10.29 Precedent Agreement between Chesapeake Utilities Corporation and Texas Eastern Transmission LP, dated April 8, 2010 is incorporated herein by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the period ended March 31, 2010, File No. 001-11590.
  - Exhibit 10.30 Form of Franchise Agreement between Florida Public Utilities Company and the city of Marianna, effective February 1, 2010, is incorporated herein by reference to Exhibit 10.41 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-10668.
  - Exhibit 10.31 Form of Service Agreement for Generation Services entered into by Florida Public Utilities Company and Gulf Power Company, dated December 28, 2006, effective January 1, 2008 is hereby incorporated herein by reference to Exhibit 10(s) on Florida Public Utilities Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-10608.
  - Exhibit 10.32 Amendment to Form of Service Agreement for Generation Services entered into by Florida Public Utilities Company and Gulf Power Company, effective January 25, 2011, is incorporated herein by reference to Exhibit 10.43 of our Annual Report on Form 10-K for the year ended December 31, 2010, File No. 001-10608.
  - Exhibit 10.33 Separation Agreement and Release executed on February 25, 2012, by and between Chesapeake Utilities Corporation and Joseph Cummiskey.<sup>(2)</sup>
  - Exhibit 12 Computation of Ratio of Earning to Fixed Charges.<sup>(1)</sup>
  - Exhibit 14.1 Code of Ethics for Financial Officers.<sup>(1)</sup>
  - Exhibit 14.2 Business Code of Ethics and Conduct.<sup>(1)</sup>
  - Exhibit 21 Subsidiaries of the Registrant.<sup>(1)</sup>
  - Exhibit 23.1 Consent of Independent Registered Public Accounting Firm.<sup>(1)</sup>

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- Exhibit 31.1 Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a) and 15d – 14(a).<sup>(2)</sup>
  - Exhibit 31.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a) and 15d – 14(a).<sup>(2)</sup>
  - Exhibit 32.1 Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 7, 2012.<sup>(1)</sup>
  - Exhibit 32.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 7, 2012.<sup>(1)</sup>
  
  - Exhibit 101.INS\*\* XBRL Instance Document<sup>(3)</sup>
  - Exhibit 101.SCH\*\* XBRL Taxonomy Extension Schema Document<sup>(3)</sup>
  - Exhibit 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document<sup>(3)</sup>
  - Exhibit 101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase Document<sup>(3)</sup>
  - Exhibit 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document<sup>(3)</sup>
  - Exhibit 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document<sup>(3)</sup>

\* Management contract or compensatory plan or agreement.

\*\* XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 of the Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 7, 2012, shall not be subject to the liability of Section 18 of the Securities Exchange Act of 1934 and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth in specific reference in such filing.

<sup>(1)</sup> Previously filed as an exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011, File No. 001-11590.

<sup>(2)</sup> Filed herewith.

<sup>(3)</sup> Previously furnished as an exhibit to the Annual Report on Form 10-K for the fiscal year ended December 31, 2011, File No. 001-11590.



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**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/ MICHAEL P. McMASTERS

Michael P. McMasters,  
President and Chief Executive Officer  
Date: March 9, 2012

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended: June 30, 2012

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

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**CHESAPEAKE UTILITIES CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0064146**  
(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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

Accelerated filer

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

Common Stock, par value \$0.4867 — 9,592,275 shares outstanding as of July 31, 2012.

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**Accounting Principles Generally Accepted in the United States of America (GAAP):** A standard framework of accounting rules used to prepare and present financial statements in the United States of America.

**Acquisition adjustment:** The recovery, through rates, and inclusion in rate base, of the premium (amount in excess of net book value) paid for an acquisition as approved by the state PSCs for the regulated operations.

**Application Evolution™:** A new product developed and launched by BravePoint. Application Evolution™ is a component of ProfitZoom™ and is being marketed to customers both in the fire suppression industry and other unrelated businesses.

**BravePoint®, Inc. (BravePoint):** An advanced information services subsidiary, headquartered in Norcross, Georgia. BravePoint is a wholly owned subsidiary of Chesapeake Services Company, which is a wholly owned subsidiary of Chesapeake.

**Chesapeake Utilities Corporation (Chesapeake or the Company):** The Registrant, its divisions, the Registrant and its subsidiaries, or the Registrant's subsidiaries, as appropriate in the context of the disclosure.

**Come-Back filing:** The regulatory filing that was required by the Florida PSC within 18 months of the completion of the FPU merger to detail known benefits, synergies, cost savings and cost increases resulting from the merger.

**Cooling Degree-Day (CDD):** A measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am the next day) is above 65 degrees Fahrenheit. This measurement is used to determine the impact of hot weather on our electric distribution operation during the cooling season.

**Cost of sales:** Includes the purchased cost of natural gas, electricity and propane commodities, costs of pipeline capacity needed to transport and store natural gas, transmission costs for electricity, costs to transport propane purchases to our storage facilities and the direct cost of labor spent on direct revenue-producing activities.

**Dekatherm (Dt):** A natural gas unit of measurement that measures heating value. A dekatherm (or 10 therms) of gas contains 10,000 British thermal units of heat, or the energy equivalent of burning approximately 1,000 cubic feet of natural gas under normal conditions.

**Delmarva natural gas distribution operation:** Chesapeake's Delaware and Maryland divisions.

**Delmarva Peninsula:** A peninsula on the east coast of the United States of America that includes Delaware and portions of Maryland and Virginia. Chesapeake provides natural gas distribution, transmission and marketing services and propane distribution service to its customers on the Delmarva Peninsula.

**Eastern Shore Natural Gas Company (Eastern Shore):** A wholly owned natural gas transmission subsidiary of Chesapeake. Eastern Shore operates an interstate pipeline system that transports natural gas from various points in Pennsylvania to customers in southern Pennsylvania and on the Delmarva Peninsula.

**Federal Energy Regulatory Commission (FERC):** An independent agency of the Federal government that regulates the interstate transmission of electricity, natural gas, and oil. The FERC also reviews proposals to build liquefied natural gas terminals and interstate natural gas pipelines. Eastern Shore is regulated by the FERC.

**Florida natural gas distribution operation:** Chesapeake's Florida division and the natural gas operation of Florida Public Utilities Company, including its Indiantown division.

**Florida Public Utilities Company (FPU):** A wholly owned subsidiary of Chesapeake as of October 28, 2009, the date we acquired FPU through the merger. FPU provides natural gas, electric and propane distribution services in Florida.

**Gross margin:** A non-GAAP measure, which Chesapeake uses to evaluate the performance of its business segments. Gross margin is calculated by deducting the cost of sales from operating revenues. A more detailed description of gross margin, including how we calculate it, is provided in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this Quarterly Report on Form 10-Q.

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**Heating Degree-Day (HDD):** A measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am the next day) is below 65 degrees Fahrenheit. This measurement is used to determine the impact of cold weather on our natural gas, electric and propane distribution operations during the heating season.

**Manufactured Gas Plant (MGP):** A site that previously used coal to manufacture gaseous fuel used for industrial, commercial and residential use. Some MGPs are currently undergoing remedial action to remove contamination in the soil and water at or near these sites.

**Normal Weather:** The most recent 10-year average of heating and/or cooling degree-days in a particular geographic area.

**Peninsula Pipeline Company, Inc. (Peninsula Pipeline):** A wholly owned Florida intrastate pipeline subsidiary of Chesapeake.

**Peninsula Energy Services Company, Inc. (PESCO):** A wholly owned natural gas marketing subsidiary of Chesapeake. PESCO competes with regulated utilities and other unregulated third-party marketers to sell natural gas supplies directly to commercial and industrial customers through competitively-priced contracts.

**ProfitZoom™:** A new product developed and launched by BravePoint. ProfitZoom™ is an integrated system encompassing financial, job costing and service management modules, which was designed specifically for the fire protection and specialty contracting industries.

**Public Service Commission (PSC):** The state agency that regulates the rates and services provided by Chesapeake's natural gas and electric distribution operations in Delaware, Maryland and Florida. Peninsula Pipeline's service and rates are also regulated by the Florida PSC.

**Remedial Action Plan (RAP):** Procedures taken or being considered to remove contaminants from MGPs formerly owned or operated by Chesapeake or FPU.

**Xeron, Inc. (Xeron):** A wholly owned propane wholesale marketing subsidiary of Chesapeake based in Houston, Texas.

Table of Contents**PART I — FINANCIAL INFORMATION****Item 1. Financial Statements****Chesapeake Utilities Corporation and Subsidiaries****Condensed Consolidated Statements of Income (Unaudited)**

<u>For the Three Months Ended June 30,</u> <i>(in thousands, except shares and per share data)</i>	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Regulated Energy	\$ 55,553	\$ 54,193
Unregulated Energy	25,176	29,692
Other	3,168	2,946
<b>Total operating revenues</b>	<u>83,897</u>	<u>86,831</u>
<b>Operating Expenses</b>		
Regulated energy cost of sales	23,433	24,882
Unregulated energy and other cost of sales	19,861	24,420
Operations	20,071	20,401
Maintenance	1,858	1,892
Depreciation and amortization	5,885	4,937
Other taxes	2,334	2,523
<b>Total operating expenses</b>	<u>73,442</u>	<u>79,055</u>
<b>Operating Income</b>	<u>10,455</u>	<u>7,776</u>
Other income, net of expenses	153	27
Interest charges	2,241	2,114
<b>Income Before Income Taxes</b>	<u>8,367</u>	<u>5,689</u>
Income tax expense	3,307	2,169
<b>Net Income</b>	<u>\$ 5,060</u>	<u>\$ 3,520</u>
<b>Weighted-Average Common Shares Outstanding:</b>		
Basic	9,586,159	9,557,707
Diluted	9,681,597	9,650,887
<b>Earnings Per Share of Common Stock:</b>		
Basic	\$ 0.53	\$ 0.37
Diluted	\$ 0.52	\$ 0.37
<b>Cash Dividends Declared Per Share of Common Stock</b>	\$ 0.365	\$ 0.345

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

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Income (Unaudited)**

<u>For the Six Months Ended June 30,</u> <i>(in thousands, except shares and per share data)</i>	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Regulated Energy	\$ 127,849	\$ 139,063
Unregulated Energy	70,063	88,442
Other	6,899	5,924
<b>Total operating revenues</b>	<u>204,811</u>	<u>233,429</u>
<b>Operating Expenses</b>		
Regulated energy cost of sales	59,105	72,872
Unregulated energy and other cost of sales	54,453	68,711
Operations	40,027	40,237
Maintenance	3,834	3,595
Depreciation and amortization	11,646	9,958
Other taxes	5,218	5,441
<b>Total operating expenses</b>	<u>174,283</u>	<u>200,814</u>
<b>Operating Income</b>	<u>30,528</u>	<u>32,615</u>
Other income, net of expenses	349	50
Interest charges	4,532	4,265
<b>Income Before Income Taxes</b>	<u>26,345</u>	<u>28,400</u>
Income tax expense	10,558	11,133
<b>Net Income</b>	<u>\$ 15,787</u>	<u>\$ 17,267</u>
<b>Weighted-Average Common Shares Outstanding:</b>		
Basic	9,578,715	9,546,606
Diluted	9,674,240	9,642,374
<b>Earnings Per Share of Common Stock:</b>		
Basic	\$ 1.65	\$ 1.81
Diluted	\$ 1.63	\$ 1.79
<b>Cash Dividends Declared Per Share of Common Stock</b>	\$ 0.710	\$ 0.675

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



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## Chesapeake Utilities Corporation and Subsidiaries

## Condensed Consolidated Statements of Comprehensive Income (Unaudited)

<u>For the periods ended June 30,</u> <i>(in thousands)</i>	<u>Three months</u>		<u>Six months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Net Income</b>	<b>\$5,060</b>	\$3,520	<b>\$15,787</b>	\$17,267
<b>Other Comprehensive Income, net of tax:</b>				
Employee Benefits net of tax:				
Amortization of prior service cost, net of tax of (\$6), \$1, (\$13) and \$3, respectively	(9)	2	(19)	4
Amortization of actuarial gain/loss, net of tax of \$50, \$28, \$101 and \$239, respectively	<u>76</u>	<u>42</u>	<u>152</u>	<u>357</u>
Other comprehensive income	<u>67</u>	<u>44</u>	<u>133</u>	<u>361</u>
<b>Comprehensive income</b>	<b><u>\$5,127</u></b>	<b><u>\$3,564</u></b>	<b><u>\$15,920</u></b>	<b><u>\$17,628</u></b>

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

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**

<u>Assets</u>	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
<i>(in thousands, except shares and per share data)</i>		
<b>Property, Plant and Equipment</b>		
Regulated energy	\$ 544,118	\$ 528,790
Unregulated energy	68,482	67,327
Other	18,334	19,988
Total property, plant and equipment	630,934	616,105
Less: Accumulated depreciation and amortization	(146,027)	(137,784)
Plus: Construction work in progress	24,629	9,383
Net property, plant and equipment	<u>509,536</u>	<u>487,704</u>
<b>Current Assets</b>		
Cash and cash equivalents	1,737	2,637
Accounts receivable (less allowance for uncollectible accounts of \$974 and \$1,090, respectively)	41,619	76,605
Accrued revenue	8,303	10,403
Propane inventory, at average cost	6,209	9,726
Other inventory, at average cost	2,999	4,785
Regulatory assets	2,375	1,846
Storage gas prepayments	3,229	5,003
Income taxes receivable	6,010	6,998
Deferred income taxes	2,116	2,712
Prepaid expenses	3,233	5,072
Mark-to-market energy assets	585	1,754
Other current assets	155	219
Total current assets	<u>78,570</u>	<u>127,760</u>
<b>Deferred Charges and Other Assets</b>		
Goodwill	4,090	4,090
Other intangible assets, net	2,961	3,127
Investments, at fair value	4,692	3,918
Regulatory assets	76,763	79,256
Receivables and other deferred charges	3,088	3,211
Total deferred charges and other assets	<u>91,594</u>	<u>93,602</u>
<b>Total Assets</b>	<u>\$ 679,700</u>	<u>\$ 709,066</u>

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

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Balance Sheets (Unaudited)**

<u>Capitalization and Liabilities</u>	<u>June 30,</u>	<u>December 31,</u>
<i>(in thousands, except shares and per share data)</i>	<u>2012</u>	<u>2011</u>
<b>Capitalization</b>		
Stockholders' equity		
Common stock, par value \$0.4867 per share (authorized 25,000,000 shares)	\$ 4,668	\$ 4,656
Additional paid-in capital	149,908	149,403
Retained earnings	100,225	91,248
Accumulated other comprehensive loss	(4,394)	(4,527)
Deferred compensation obligation	958	817
Treasury stock	(958)	(817)
Total stockholders' equity	<u>250,407</u>	<u>240,780</u>
Long-term debt, net of current maturities	<u>108,755</u>	<u>110,285</u>
Total capitalization	<u>359,162</u>	<u>351,065</u>
<b>Current Liabilities</b>		
Current portion of long-term debt	8,196	8,196
Short-term borrowing	13,553	34,707
Accounts payable	37,018	55,581
Customer deposits and refunds	29,991	30,918
Accrued interest	1,422	1,637
Dividends payable	3,501	3,300
Accrued compensation	5,088	6,932
Regulatory liabilities	3,743	6,653
Mark-to-market energy liabilities	504	1,496
Other accrued liabilities	9,052	8,079
Total current liabilities	<u>112,068</u>	<u>157,499</u>
<b>Deferred Credits and Other Liabilities</b>		
Deferred income taxes	123,609	115,624
Deferred investment tax credits	142	171
Regulatory liabilities	3,614	3,564
Environmental liabilities	9,298	9,492
Other pension and benefit costs	25,832	26,808
Accrued asset removal cost—Regulatory liability	37,461	36,584
Other liabilities	8,514	8,259
Total deferred credits and other liabilities	<u>208,470</u>	<u>200,502</u>
Other commitments and contingencies (Note 6)		
<b>Total Capitalization and Liabilities</b>	<u>\$679,700</u>	<u>\$ 709,066</u>

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

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**

<u>For the Six Months Ended June 30,</u> <i>(in thousands)</i>	<u>2012</u>	<u>2011</u>
<b>Operating Activities</b>		
Net Income	\$ 15,787	\$ 17,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,646	9,958
Depreciation and accretion included in other costs	2,686	2,473
Deferred income taxes, net	8,562	12,449
Loss on sale of assets	33	94
Unrealized loss on commodity contracts	232	30
Unrealized gain on investments	(502)	(131)
Employee benefits	309	571
Share-based compensation	697	705
Other, net	(14)	(18)
Changes in assets and liabilities:		
Sale (purchase) of investments	(232)	258
Accounts receivable and accrued revenue	37,103	14,017
Propane inventory, storage gas and other inventory	5,416	3,315
Regulatory assets	(24)	601
Prepaid expenses and other current assets	2,084	1,792
Accounts payable and other accrued liabilities	(18,359)	(11)
Income taxes receivable	920	(2,666)
Accrued interest	(215)	(241)
Customer deposits and refunds	(927)	(1,182)
Accrued compensation	(1,853)	(2,234)
Regulatory liabilities	(2,859)	2,887
Other liabilities	23	155
Net cash provided by operating activities	<u>60,513</u>	<u>60,089</u>
<b>Investing Activities</b>		
Property, plant and equipment expenditures	(34,140)	(21,236)
Proceeds from sales of assets	2,249	344
Purchase of investments	(124)	(200)
Environmental expenditures	(194)	(326)
Net cash used in investing activities	<u>(32,209)</u>	<u>(21,418)</u>
<b>Financing Activities</b>		
Common stock dividends	(5,987)	(5,685)
Purchase of stock for Dividend Reinvestment Plan	(619)	(609)
Change in cash overdrafts due to outstanding checks	(2,144)	(3,193)
Net repayment under line of credit agreements	(19,010)	(27,417)
Other short-term borrowing	—	(29,100)
Proceeds from issuance of long-term debt	—	29,000
Repayment of long-term debt	(1,444)	(1,482)
Net cash used in financing activities	<u>(29,204)</u>	<u>(38,486)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(900)	185
Cash and Cash Equivalents — Beginning of Period	2,637	1,643
Cash and Cash Equivalents — End of Period	<u>\$ 1,737</u>	<u>\$ 1,828</u>

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

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**Chesapeake Utilities Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity (Unaudited)**

<i>(in thousands, except shares and per share data)</i>	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Treasury Stock	Total
	Number of Shares <sup>(1)</sup>	Par Value						
<b>Balances at December 31, 2010</b>	<b>9,524,195</b>	<b>\$ 4,635</b>	<b>\$ 148,159</b>	<b>\$ 76,805</b>	<b>(\$ 3,360)</b>	<b>\$ 777</b>	<b>(\$ 777)</b>	<b>\$226,239</b>
Net Income				27,622				27,622
Other comprehensive loss					(1,167)			(1,167)
Dividend Reinvestment Plan			(22)					(22)
Retirement Savings Plan	2,002	1	79					80
Conversion of debentures	10,680	5	176					181
Share-based compensation <sup>(2)</sup> <sup>(3)</sup>	30,430	15	998					1,013
Tax benefit on share-based compensation			13					13
Deferred Compensation Plan						40	(40)	
Purchase of treasury stock	(993)						(40)	(40)
Sale and distribution of treasury stock	993						40	40
Dividends on share-based compensation				(129)				(129)
Cash dividends <sup>(4)</sup>				(13,050)				(13,050)
<b>Balances at December 31, 2011</b>	<b>9,567,307</b>	<b>4,656</b>	<b>149,403</b>	<b>91,248</b>	<b>(4,527)</b>	<b>817</b>	<b>(817)</b>	<b>240,780</b>
Net Income				15,787				15,787
Other comprehensive income					133			133
Dividend Reinvestment Plan			(4)					(4)
Conversion of debentures	5,341	3	88					91
Share-based compensation <sup>(2)</sup> <sup>(3)</sup>	19,217	9	421					430
Deferred Compensation Plan						141	(141)	
Purchase of treasury stock	(502)						(21)	(21)
Sale and distribution of treasury stock	502						21	21
Dividends on share-based compensation				(5)				(5)
Cash dividends <sup>(4)</sup>				(6,805)				(6,805)
<b>Balances at June 30, 2012</b>	<b>9,591,865</b>	<b>\$ 4,668</b>	<b>\$ 149,908</b>	<b>\$ 100,225</b>	<b>(\$ 4,394)</b>	<b>\$ 958</b>	<b>(\$ 958)</b>	<b>\$250,407</b>

<sup>(1)</sup> Includes 32,903 and 30,597 shares at June 30, 2012 and December 31, 2011, respectively, held in a Rabbi Trust established by the Company relating to the Deferred Compensation Plan.

<sup>(2)</sup> Includes amounts for shares issued for Directors' compensation.

<sup>(3)</sup> The shares issued under the Performance Incentive Plan ("PIP") are net of shares withheld for employee taxes. For six months ended June 30, 2012 and for the year ended December 31, 2011, the Company withheld 5,670 and 12,324 shares, respectively, for taxes.

<sup>(4)</sup> Cash dividends per share for the periods ended June 30, 2012 and December 31, 2011 were \$0.710 and \$1.365 respectively.

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

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**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****1. Summary of Accounting Policies*****Basis of Presentation***

References in this document to the “Company,” “Chesapeake,” “we,” “us” and “our” are intended to mean the registrant and its subsidiaries, or the registrant’s subsidiaries, as appropriate in the context of the disclosure.

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 accounting principles generally accepted in the United States of America (“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 our Annual Report on Form 10-K for the year ended December 31, 2011, as amended. In the opinion of management, these financial statements reflect normal recurring adjustments that are necessary for a fair presentation of our results of operations, financial position and cash flows for the interim periods presented.

Due to the seasonality of our business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is highest due to colder temperatures.

We have assessed and reported on subsequent events through the date of issuance of these condensed consolidated financial statements.

***Reclassifications***

We reclassified certain amounts in the condensed consolidated statement of income for the three and six months ended June 30, 2011 and in the condensed consolidated balance sheet as of December 31, 2011 to conform to the current year’s presentation. We also reclassified certain segment information as of December 31, 2011, and for the three and six months ended June 30, 2011 to conform to the current year’s presentation. These reclassifications are considered immaterial to the overall presentation of our condensed consolidated financial statements.

***Sale of Assets***

In September 2011, Florida Public Utilities Company (“FPU”) entered into an agreement with an unaffiliated entity to sell its office building located in West Palm Beach, Florida for \$2.2 million. The sale of FPU’s West Palm Beach office building was finalized in February 2012 and did not result in a material gain or loss. We treated the West Palm Beach office building as an asset held for sale, and it was included in other property, plant and equipment at December 31, 2011 in the accompanying condensed consolidated balance sheet.

In June and July 2012, FPU entered into a contract to sell its land located in West Palm Beach, Florida and a contract to purchase two parcels of land also located in the same city. FPU entered into the contract to sell its land and the contract to purchase one of the parcels to effectively exchange those lands. Therefore, these transactions will be accounted for as a non-monetary exchange and is expected to qualify as a “like-kind” exchange for income tax purposes. There will be no gain or loss related to the exchange portion of these transactions. The contract to purchase the other parcel of land will be recorded at the purchase price allocated to that parcel, which is approximately \$600,000. The transactions are expected to be completed in the third quarter of 2012.

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**Table of Contents*****Financial Accounting Standards Board (“FASB”) Statements and Other Authoritative Pronouncements******Recently Adopted Accounting Standards***

In September 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-08, “Intangibles – Goodwill and Other (Topic 350) Testing Goodwill for Impairment,” which allows an entity to assess qualitatively whether it is necessary to perform step one of the two-step annual goodwill impairment test. Step one would be required if it is more-likely-than-not that a reporting unit’s fair value is less than its carrying amount. This differs from previous guidance, which required entities to perform step one of the test, at least annually, by comparing the fair value of a reporting unit to its carrying amount. An entity may elect to bypass the qualitative assessment and proceed directly to step one, for any reporting unit, in any period. ASU 2011-08 does not change the guidance on when to test goodwill for impairment. The amendments in ASU 2011-08 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted the guidance of ASU 2011-08, effective January 1, 2012. Adoption of ASU 2011-08 did not have a material impact on our financial position and results of operations.

In May 2011, the FASB issued ASU No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS.” Amendments in the ASU do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within International Financial Accounting Standards (“IFRS”) or U.S. GAAP. ASU 2011-04 supersedes most of the guidance in Topic 820, although many of the changes are clarifications of existing guidance or wording changes to align with IFRS. Certain amendments in ASU 2011-04 change a particular principle or requirement for measuring fair value or disclosing information about fair value measurements. The amendments in ASU 2011-04 are effective for public entities for interim and annual periods beginning after December 15, 2011, and should be applied prospectively. We adopted the guidance of ASU 2011-04, effective January 1, 2012, and provided additional disclosures as required. Adoption of ASU 2011-04 did not have a material impact on our financial position and results of operations.

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## 2. Calculation of Earnings Per Share

<u>For the Periods Ended June 30,</u> <i>(in thousands, except shares and per share data)</i>	<u>Three Months</u>		<u>Six Months</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Calculation of Basic Earnings Per Share:</b>				
Net Income	\$ 5,060	\$ 3,520	\$ 15,787	\$ 17,267
Weighted average shares outstanding	9,586,159	9,557,707	9,578,715	9,546,606
<b>Basic Earnings Per Share</b>	<b>\$ 0.53</b>	<b>\$ 0.37</b>	<b>\$ 1.65</b>	<b>\$ 1.81</b>
<b>Calculation of Diluted Earnings Per Share:</b>				
<b>Reconciliation of Numerator:</b>				
Net Income	\$ 5,060	\$ 3,520	\$ 15,787	\$ 17,267
Effect of 8.25% Convertible debentures	13	15	27	31
Adjusted numerator — Diluted	\$ 5,073	\$ 3,535	\$ 15,814	\$ 17,298
<b>Reconciliation of Denominator:</b>				
Weighted shares outstanding — Basic	9,586,159	9,557,707	9,578,715	9,546,606
Effect of dilutive securities:				
Share-based Compensation	32,380	20,699	31,162	21,958
8.25% Convertible debentures	63,058	72,481	64,363	73,810
Adjusted denominator — Diluted	9,681,597	9,650,887	9,674,240	9,642,374
<b>Diluted Earnings Per Share</b>	<b>\$ 0.52</b>	<b>\$ 0.37</b>	<b>\$ 1.63</b>	<b>\$ 1.79</b>

## 3. Acquisition

On June 22, 2012, we entered into an agreement to purchase the operating assets of The Eastern Shore Gas Company and its affiliates, Eastern Shore Propane Company, LLC and Eastern Gas & Water Investment Company, LLC (collectively, "ESG"). These assets are currently used to provide propane distribution service to approximately 11,000 residential and commercial customers through underground propane gas distribution systems and bulk propane delivery service to over 500 customers in Worcester County, Maryland. We are evaluating the potential conversion of some of these underground propane distribution systems to natural gas where it is both economical and feasible. The transaction is subject to approval by the Maryland Public Service Commission ("PSC"), the receipt of consents of certain local jurisdictions to the assignment of certain franchise agreements and satisfaction of other closing conditions. The transaction, which is a cash purchase of assets, is expected to be completed in the fourth quarter of 2012. We expect to finance the acquisition using unsecured short-term debt.



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**Table of Contents****4. Rates and Other Regulatory Activities**

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC; Eastern Shore Natural Gas Company (“Eastern Shore”), our natural gas transmission subsidiary, is subject to regulation by the Federal Energy Regulatory Commission (“FERC”); and Peninsula Pipeline Company, Inc. (“Peninsula Pipeline”), our intrastate pipeline subsidiary, is subject to regulation by the Florida PSC. Chesapeake’s Florida natural gas distribution division and the natural gas and electric operations of FPU continue to be subject to regulation by the Florida PSC as separate entities.

***Delaware***

On September 1, 2011, the Delaware division filed with the Delaware PSC its annual Gas Service Rates (“GSR”) Application, seeking approval to change its GSR, effective November 1, 2011. On September 20, 2011, the Delaware PSC authorized the Delaware division to implement the GSR charges, as filed, on November 1, 2011, on a temporary basis, subject to refund, pending the completion of a full evidentiary hearing and a final decision. The Delaware PSC granted approval of the GSR charges at its regularly scheduled meeting on July 17, 2012.

On June 18, 2012, the Delaware division filed an application with the Delaware PSC requesting approval for a Town of Selbyville Franchise Fee Rider. This rider will allow the Delaware division to charge all natural gas customers within the town limits the franchise fee paid by the Delaware division to the Town of Selbyville as a condition to providing natural gas service. We anticipate that the Delaware PSC will grant approval of the Franchise Fee Rider in the third quarter of 2012.

On June 25, 2012, the Delaware division filed with the Delaware PSC an application for proposed natural gas expansion service offerings in order to increase the availability of natural gas within its Delaware service areas. In this filing, the Delaware division is seeking approval from the Delaware PSC of the following:

- (i) a monthly fixed charge to customers in portions of Eastern Sussex County, Delaware, which will enable the Delaware division to extend its distribution system to provide natural gas service to these customers economically without upfront contributions from these customers;
- (ii) optional service offerings to customers to assist them in conversions, including a conversion finance service to assist customers with their cost of conversion equipment; and
- (iii) a slight rate increase for all Delaware customers in order to support the additional costs associated with the administration and implementation of the proposed service offerings.

On July 3, 2012, the Delaware PSC officially opened the docket and set a period for formal interventions to be filed. We anticipate that the Delaware PSC will render a final decision on these proposals in the fourth quarter of 2012.

***Maryland***

There were no significant regulatory proceedings in Maryland pending during 2012.

***Florida***

***“Come-Back” Filing:*** On January 30, 2012, the Florida PSC issued an order, approving, among other things, the inclusion in our rate base in Florida of an acquisition adjustment of \$34.2 million and merger-related costs of \$2.2 million, to be amortized over a 30-year period and a five-year period, respectively, using the straight-line method beginning in November 2009. The acquisition adjustment permits the recovery, through rates, and inclusion in rate base, of the premium (amount in excess of net book value) paid for the acquisition of FPU. The Florida PSC also determined that FPU and Chesapeake’s Florida division did not have any excess earnings in 2010 to be refunded to customers. The Florida PSC issued a consummating order on these matters on January 30, 2012.

The Florida PSC order allows us to classify the acquisition adjustment and merger-related costs as regulatory assets and include them in our investment, or rate base, when determining our Florida natural gas rates. In addition, our rate of return calculation will be based upon this higher level of investment, which enables us to earn a return on this investment. Pursuant to this order, we reclassified to a regulatory asset at December 31, 2011, \$31.7 million of the \$34.2 million in merger-related goodwill, which represents the portion of the goodwill allowed to be recovered in future rates after the effective date of the Florida PSC order.

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We also recorded as a regulatory asset \$18.1 million related to the gross-up of the acquisition adjustment for income tax. Of the \$2.2 million of merger-related costs, \$1.3 million, which represents the portion of the merger-related costs allowed to be recovered in future rates after the effective date of the Florida PSC order, had previously been deferred as a regulatory asset. We also recorded as a regulatory asset \$349,000 related to the gross-up of the merger-related costs for income tax. Based upon the effective date and outcome of the order, we began reflecting the amortization of the acquisition adjustment and merger-related costs as an expense in January 2012, and included \$1.2 million of the amortization expense in depreciation and amortization in the accompanying condensed consolidated statement of income for the six months ended June 30, 2012. We will record \$2.4 million (\$1.4 million, net of tax) in amortization expense related to these assets in 2012 and 2013, \$2.3 million (\$1.4 million, net of tax) in 2014 and \$1.8 million (\$1.1 million, net of tax) annually, thereafter until 2039. These amortization expenses will be non-cash charges, and the net effect of the recovery will be positive cash flow. Over the long term, inclusion of the acquisition adjustment and merger-related costs in our rate base and the recovery of these regulatory assets through amortization expense will increase our earnings and cash flows above what we would have been able to achieve absent this regulatory authorization.

In FPU's future rate proceedings, if it is determined that the level of cost savings supporting recovery of the acquisition adjustment no longer exists, the remaining acquisition adjustment may be partially or entirely disallowed by the Florida PSC. In such event, we would have to expense the corresponding unamortized amount of the disallowed acquisition adjustment.

*Peninsula Pipeline:* At its April 10, 2012 agenda conference, the Florida PSC approved a joint territorial agreement between FPU and the Peoples Gas System division of Tampa Electric Company ("Peoples Gas") and other related agreements among FPU, Peninsula Pipeline and Peoples Gas. These agreements were executed in January 2012 among the parties to enable Peninsula Pipeline and FPU to expand natural gas service into Nassau and Okeechobee Counties, Florida.

One of the agreements provides for the joint construction, ownership and operation of a pipeline extending approximately 16 miles from the Duval/Nassau County line to Amelia Island in Nassau County, Florida. Under the terms of the agreement, Peninsula Pipeline will own approximately 45 percent of this 16-mile pipeline, and its portion of the estimated project cost is expected to be approximately \$5.7 million. Peoples Gas will operate the pipeline, and Peninsula Pipeline will be responsible for its portion of the operation and maintenance expenses of the pipeline based on its ownership percentage. The new jointly-owned pipeline is expected to be completed and placed into service in late 2012 or early 2013. Under a separate agreement, Peninsula Pipeline will contract with Peoples Gas for transportation service from the Peoples Gas interconnection point with an unaffiliated upstream interstate pipeline to the new jointly-owned pipeline. Peninsula Pipeline will then utilize the transportation agreement with Peoples Gas and the jointly-owned pipeline capacity to provide transmission service to FPU for its natural gas distribution service in Nassau County.

*Marianna Franchise:* On July 7, 2009, the City Commission of Marianna, Florida (the "Marianna Commission") adopted an ordinance granting a franchise to FPU effective February 1, 2010 for a period not to exceed 10 years for the operation and distribution and/or sale of electric energy (the "Franchise Agreement"). The Franchise Agreement provides that FPU will develop and implement new time-of-use ("TOU") and interruptible electric power rates, or other similar rates, mutually agreeable to FPU and the City of Marianna. The Franchise Agreement further provides for the TOU and interruptible rates to be effective no later than February 17, 2011, and available to all customers within FPU's Northwest Division, which includes the City of Marianna. If the rates were not in effect by February 17, 2011, the City would have the right to give notice to FPU within 180 days thereafter of its intent to exercise an option in the Franchise Agreement to purchase FPU's property (consisting of the electric distribution assets) within the City of Marianna. Any such purchase would be subject to approval by the Marianna Commission, which would also need to approve the presentation of a referendum to voters in the City of Marianna for the approval of the purchase and the operation by the City of Marianna of an electric distribution facility. If the purchase is approved by the Marianna Commission and by the referendum, the closing of the purchase must occur within 12 months after the referendum is approved. If the City of Marianna elects to purchase the Marianna property, the Franchise Agreement requires the City of Marianna to pay FPU the fair market value for such property as determined by three qualified appraisers. Future financial results would be negatively affected by the loss of earnings generated by FPU from its approximately 3,000 customers in the City of Marianna.

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In accordance with the terms of the Franchise Agreement, FPU developed TOU and interruptible rates, and on December 14, 2010, FPU filed a petition with the Florida PSC for authority to implement such proposed TOU and interruptible rates on or before February 17, 2011. On February 11, 2011, the Florida PSC issued an order approving FPU's petition for authority to implement the proposed TOU and interruptible rates, which became effective on February 8, 2011. The City of Marianna objected to the proposed rates and filed a petition protesting the entry of the Florida PSC's order. On January 24, 2012, the Florida PSC dismissed with prejudice the protest by the City of Marianna.

On January 26, 2011, FPU filed a petition with the Florida PSC for approval of an amendment to FPU's Generation Services Agreement entered into between FPU and Gulf Power. The amendment provides for a reduction in the capacity demand quantity, which generates the savings necessary to support the TOU and interruptible rates approved by the Florida PSC. The amendment also extends the current agreement by two years, with a new expiration date of December 31, 2019. By its order dated June 21, 2011, the Florida PSC approved the amendment. On July 12, 2011, the City of Marianna filed a protest of this decision and requested a hearing on the amendment. On January 24, 2012, the Florida PSC dismissed with prejudice the protest by the City of Marianna.

The City of Marianna filed an appeal with the Florida Supreme Court on March 7, 2012 and with the Florida PSC on March 19, 2012, seeking an applicable review of the decisions by the Florida PSC with respect to the protests by the City of Marianna. At this time, this appeal is pending before the Florida Supreme Court. These Florida PSC dockets are currently in litigation status awaiting a decision by the Florida Supreme Court on the administrative appeal.

As disclosed in Note 6, "Other Commitments and Contingencies," to the Condensed Consolidated Financial Statements, the City of Marianna, on March 2, 2011, filed a complaint against FPU in the Circuit Court of the Fourteenth Judicial Circuit in and for Jackson County, Florida, alleging breaches of the Franchise Agreement by FPU and seeking a declaratory judgment that the City of Marianna has the right to exercise its option to purchase FPU's property in the City of Marianna in accordance with the terms of the Franchise Agreement. The litigation remains pending.

On April 7, 2011, FPU filed a petition for approval of a mid-course reduction to its Northwest Division fuel rates based on two factors: (1) the previously discussed amendment to the Generation Services Agreement with Gulf Power, and (2) a weather-related increase in sales resulting in an accelerated collection of the prior year's under-recovered costs. Pursuant to its order dated July 5, 2011, the Florida PSC approved the petition, which reduced the fuel rates of FPU's northwest division, which includes the fuel rates charged to customers in the City of Marianna.

On February 24, 2012, FPU filed a revised petition for approval of a mid-course reduction to its northwest division fuel rates based on a reduction in its supplier's fuel rates, which would significantly lower purchased power costs for FPU's northwest division in 2012. FPU filed for this mid-course reduction in order to ensure that its customers receive these savings in the most timely manner. The Florida PSC issued an order on March 27, 2012, approving the mid-course correction reduction in fuel rates, effective April 1, 2012. This further reduced the fuel rates of FPU's northwest division, which includes the fuel rates charged to customers in the City of Marianna.

On June 1, 2012, the City of Marianna filed a petition with the Florida PSC for resolution of a territorial dispute for natural gas service in Jackson County as well as the surrounding areas included in FPU's planned expansion. On June 22, 2012, FPU filed a response to the petition defending its planned expansion. The Florida PSC has not yet issued a date for an agenda conference to resolve the matter.

We also had developments in the following regulatory matters in Florida:

On June 21, 2011, FPU, in accordance with the Florida PSC rules, filed its 2011 depreciation study and request for new depreciation rates for its electric distribution operation, effective January 1, 2012. The Florida PSC approved the depreciation study at its January 24, 2012 agenda conference. The new approved depreciation rates are expected to reduce annual depreciation expense by approximately \$227,000.

On February 3, 2012, FPU's natural gas distribution operation and the Florida Division of Chesapeake filed a petition with the Florida PSC for approval of a surcharge to customers for a Gas Reliability Infrastructure Program. We are seeking approval to recover costs, inclusive of an appropriate return on investment, associated with accelerating the replacement of qualifying distribution mains and services (defined as any material other than coated steel or plastic (Polyethylene)) in their respective systems. If the petition is approved, we will replace qualifying mains and services over a 10-year period. The Florida PSC staff is expected to issue a recommendation on this surcharge in early August 2012, and a decision is expected by the Florida PSC at the agenda conference on August 14, 2012.



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On March 21, 2012, FPU filed a petition with the Florida PSC for approval of a negotiated contract for the purchase of renewable energy power between FPU and an unaffiliated company, which is constructing and installing a new renewable generating facility within FPU's service territory. If constructed and installed, this facility will be capable of interconnecting and selling power to FPU's northeast electric division. Overall, this contract will provide a significant benefit to FPU's northeast electric customers, while also promoting the State of Florida's goal of encouraging energy independence and the growth of renewable energy projects. If the contract is approved, savings will be passed on to customers through lower fuel costs. At the agenda conference on July 17, 2012, the Florida PSC approved the contract.

On July 12, 2012, FPU filed a petition with the Florida PSC for approval of recognition of a regulatory liability for a one-time tax contingency gain related to FPU's income tax liability, which originated prior to the acquisition by Chesapeake from excess tax depreciation on vehicles. FPU recently determined that this tax liability was no longer needed because the applicable statute of limitation of the Internal Revenue Service and the tax remittance period related to this tax liability has expired. FPU believes that the treatment most consistent with prior regulatory treatment of one-time gains would be to record the amount as a regulatory liability and amortize that amount over a specified period. FPU is proposing to establish approximately \$1.9 million of regulatory liability (\$1.2 million in the tax contingency gain and \$748,000 in the tax gross-up) and amortize it over a period from January 2012 to October 2014. The agenda conference date for this petition has not yet been set, but FPU expects that a decision on this petition will be made by the end of 2012.

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### *Eastern Shore*

The following are regulatory activities involving FERC orders applicable to Eastern Shore and the expansions of Eastern Shore's transmission system:

*Rate Case Filing:* On December 30, 2010, Eastern Shore filed with the FERC a base rate proceeding in accordance with the terms of the settlement in its prior base rate proceeding. Conferences involving Eastern Shore, the FERC Staff and other interested parties resulted in a settlement based on an annual cost of service of approximately \$29.1 million and a pre-tax return of 13.9 percent. Also included in the settlement is a negotiated rate adjustment, effective November 1, 2011, associated with the phase-in of an additional 15,000 dekatherms per day ("Dts/d") of new transmission service on Eastern Shore's eight-mile extension to interconnect with Texas Eastern Transmission LP's ("TETLP") pipeline system. This rate adjustment reduces the rate per dekatherm ("Dt") of the service on this eight-mile extension by reflecting the increased service of 15,000 Dts/d with no additional revenue. This rate adjustment effectively offsets the increased revenue that would have been generated from the 15,000 Dts/d increase in firm service although Eastern Shore may still collect a commodity charge on the increased volume from the phase-in of service. The settlement also provides a five-year moratorium on the parties' rights to challenge Eastern Shore's rates and on Eastern Shore's right to file a base rate increase but allows Eastern Shore to file for rate adjustments during those five years in the event certain costs related to government-mandated obligations are incurred and Eastern Shore's pre-tax earnings do not equal or exceed 13.9 percent. The FERC approved the settlement on January 24, 2012.

From July 2011 through October 2011, Eastern Shore adjusted its billing to reflect the rates requested in the base rate proceeding, subject to refund to customers upon the FERC's approval of the new rates. Commencing in November 2011, Eastern Shore adjusted its billing to reflect the settlement rates, subject to refund to customers upon FERC's approval of the settlement. At December 31, 2011 Eastern Shore had recorded approximately \$1.3 million as a regulatory liability related to the refund due to customers as a result of the settlement; the refund was paid in January and February 2012.

*Mainline Expansion Project:* On May 14, 2012, Eastern Shore submitted to the FERC an Application for a Certificate of Public Convenience and Necessity for approval to construct, own and operate the facilities necessary to deliver additional firm service of 15,040 Dts/d to an existing electric power generation customer and to Chesapeake's Delaware and Maryland divisions. The estimated capital cost of the project is approximately \$16.3 million. The filing was publicly noticed on May 25, 2012. Two of Eastern Shore's existing customers and Chesapeake's Delaware and Maryland divisions filed motions to intervene in support of the project. One existing customer filed a motion to intervene and protest. On June 28, 2012, Eastern Shore submitted a response to the protest. We expect the FERC ruling on this application by the end of 2012.

Eastern Shore also had developments in the following FERC matters:

On March 7, 2011, Eastern Shore filed certain tariff sheets to amend the creditworthiness provisions contained in its FERC Gas Tariff. On April 6, 2011, the FERC issued an order accepting and suspending Eastern Shore's filed tariff revisions, effective April 1, 2011, subject to Eastern Shore submitting certain clarifications with regard to several proposed revisions. Eastern Shore responded with a revised filing on January 13, 2012, which the FERC approved on February 24, 2012.

On March 1, 2012, Eastern Shore filed revised tariff sheets to amend certain provisions contained in the Construction of Facilities and Right of First Refusal sections of its FERC Gas Tariff. On April 6, 2012, the FERC issued an order accepting Eastern Shore's revised tariff sheet, effective April 1, 2012, subject to Eastern Shore submitting two additional revisions proposed by an intervening party during the review period. Eastern Shore responded with a revised filing on April 16, 2012, which the FERC accepted.

On June 27, 2012, Eastern Shore submitted a combined filing for its Fuel Retention Percentage ("FRP") and Cash-Out Surcharge to the FERC, which encompassed a 24-month period from April 2010 to March 2012. In the filing, Eastern Shore proposed to maintain its existing zero FRP rate and its existing zero rate for the Cash-Out Surcharge. Eastern Shore also proposed to refund \$319,933, inclusive of interest, to its eligible customers in the third quarter of 2012 as a result of combining its over-recovered Gas Required for Operations and its over-recovered Cash-Out Cost.

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**Table of Contents****5. Environmental Commitments and Contingencies**

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

We have participated in the investigation, assessment or remediation, and have exposure at six former Manufactured Gas Plant ("MGP") sites. Those sites are located in Salisbury, Maryland, and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We have also been in discussions with the Maryland Department of the Environment ("MDE") regarding a seventh former MGP site located in Cambridge, Maryland.

As of June 30, 2012, we had approximately \$10.9 million in environmental liabilities related to all of FPU's MGP sites in Florida, which include the Key West, Pensacola, Sanford and West Palm Beach sites, representing our estimate of the future costs associated with those sites. FPU has approval to recover up to \$14.0 million of its environmental costs related to all of its MGP sites from insurance and from customers through rates, approximately \$8.5 million of which has been recovered as of June 30, 2012. We also had approximately \$5.5 million in regulatory assets for future recovery of environmental costs from FPU's customers.

In addition to the FPU MGP sites, we had \$223,000 in environmental liabilities as of June 30, 2012, related to Chesapeake's MGP sites in Maryland and Florida, representing our estimate of future costs associated with these sites. As of June 30, 2012, we had approximately \$792,000 in regulatory and other assets for future recovery through Chesapeake's rates.

We continue to expect that all costs related to environmental remediation and related activities will be recoverable from customers through rates.

The following discussion provides a brief summary of each MGP site:

***West Palm Beach, Florida***

Remedial options are being evaluated to respond to environmental impacts to soil and groundwater at and in the immediate vicinity of a parcel of property owned by FPU in West Palm Beach, Florida, where FPU previously operated an MGP. FPU is currently implementing a remedial plan approved by the Florida Department of Environmental Protection ("FDEP") for the east parcel of the West Palm Beach site which includes installation of monitoring test wells, sparging of air into the groundwater system and extraction of vapors from the subsurface. It is anticipated that similar remedial actions ultimately will be implemented for other portions of the site. Estimated costs of remediation for the West Palm Beach site range from approximately \$4.6 million to \$15.7 million, including costs associated with the relocation of FPU's operations at this site, which is necessary to implement the remedial plan, and any potential costs associated with future redevelopment of the properties. We continue to expect that all costs related to these activities will be recoverable from customers through rates.

***Sanford, Florida***

FPU is the current owner of property in Sanford, Florida, which was a former MGP site that was operated by several other entities before FPU acquired the property. FPU was never an owner or an operator of the MGP. In January 2007, FPU and other responsible parties at the Sanford site (collectively with FPU the "Sanford Group") signed a Third Participation Agreement, which provides for the funding of the final remedy approved by the Environmental Protection Agency ("EPA") for the site. FPU's share of remediation costs under the Third Participation Agreement is set at five percent of a maximum of \$13 million, or \$650,000. As of June 30, 2012, FPU has paid \$650,000 to the Sanford Group escrow account for all of its share of the funding requirements.

The total cost of the final remedy is now estimated at over \$20 million, which includes long-term monitoring and the settlement of claims asserted by two adjacent property owners to resolve damages that the property owners allege they have incurred and will incur as a result of the implementation of the EPA-approved remediation. In settlement of these claims, members of the Sanford Group, which in this instance does not include FPU, have agreed to pay specified sums of money to the parties. FPU has refused to participate in the funding of the third-party settlement agreements based on its contention that it did not contribute to the release of hazardous substances at the site giving rise to the third-party claims. FPU has advised the other members of the Sanford Group that it is unwilling at this time to agree to pay any sum in excess of the \$650,000 committed by FPU in the Third Participation Agreement.





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As of June 30, 2012, FPU's remaining share of remediation expenses, including attorneys' fees and costs, is estimated to be \$24,000. However, we are unable to determine, to a reasonable degree of certainty, whether the other members of the Sanford Group will accept FPU's asserted defense to liability for costs exceeding \$13.0 million to implement the final remedy for this site or will pursue a claim against FPU for a sum in excess of the \$650,000 that FPU has paid under the Third Participation Agreement. No such claims have been made as of June 30, 2012.

***Key West, Florida***

FPU formerly owned and operated an MGP in Key West, Florida. Field investigations performed in the 1990s identified limited environmental impacts at the site, which is currently owned by an unrelated third party. In 2010, after 17 years of regulatory inactivity, FDEP observed that some soil and groundwater standards were exceeded and requested implementation of additional soil and groundwater fieldwork. The scope of work is limited to the installation of two additional monitoring wells and periodic monitoring of the new and existing wells. The two new monitoring wells were installed in November 2011, and groundwater monitoring began in December 2011. The first semi-annual report from the monitoring program was issued in May 2012. It is anticipated that the next semi-annual report, which may include recommendations for further actions, if appropriate, will be issued before the end of 2012. Prior to completion of the monitoring program, we cannot determine to a reasonable degree of certainty the probable costs to resolve FPU's liability for the Key West MGP Site, although we do not anticipate the cost to exceed \$100,000.

***Pensacola, Florida***

FPU formerly owned and operated an MGP in Pensacola, Florida, which was subsequently owned by Gulf Power. Portions of the site are now owned by the City of Pensacola and the Florida Department of Transportation ("FDOT"). In October 2009, FDEP informed Gulf Power that FDEP would approve a conditional No Further Action ("NFA") determination for the site, which must include a requirement for institutional and engineering controls. On December 13, 2011, Gulf Power, the City of Pensacola, FDOT and FPU submitted to FDEP a draft covenant for institutional and engineering controls for the site. Upon FDEP's approval and the subsequent recording of the institutional and engineering controls, no further work is expected to be required of the parties. Assuming FDEP approves the draft institutional and engineering controls, it is anticipated that FPU's share of remaining legal and cleanup costs will not exceed \$5,000.

***Salisbury, Maryland***

We have substantially completed remediation of a site in Salisbury, Maryland, where it was determined that a former MGP caused localized ground-water contamination. In February 2002, the MDE granted permission to permanently decommission the systems used for remediation and to discontinue all on-site and off-site well monitoring, except for one well, which is being maintained for periodic product monitoring and recovery. We anticipate that the remaining costs of the one remaining monitoring well will not exceed \$5,000 annually. We cannot predict at this time when the MDE will grant permission to permanently decommission the one remaining monitoring well.

***Winter Haven, Florida***

The Winter Haven site is located on the eastern shoreline of Lake Shipp, in Winter Haven, Florida. Pursuant to a Consent Order entered into with the FDEP, we are obligated to assess and remediate environmental impacts at this former MGP site. The recent groundwater sampling results show a continuing reduction in contaminant concentrations from the treatment system, which has been in operation since 2002. Currently, we predict that remedial action objectives could be met in approximately two to three years for the area being treated by the remediation system. The total expected annual cost of operating and monitoring the system is approximately \$46,000.

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The current treatment system at the Winter Haven site does not address impacted soils in the southwest corner of the site. In 2010, we obtained a conditional approval from FDEP for a soil excavation plan, and we estimate the cost of this excavation at \$250,000; however, this estimate does not include costs associated with dewatering or shoreline stabilization, which would be required to complete the excavation. Because the costs associated with shoreline stabilization and dewatering are likely to be substantial, alternatives to this excavation plan are being evaluated.

FDEP has indicated that we may be required to remediate sediments along the shoreline of Lake Shipp, immediately west of the site. Based on studies performed to date, we object to FDEP's suggestion that the sediments have been adversely impacted by the former operations of the MGP. Our early estimates indicate that some of the corrective measures discussed by FDEP could cost as much as \$1.0 million. We believe that corrective measures for the sediments are not warranted and intend to oppose any requirement that we undertake corrective measures in the offshore sediments. We have not recorded a liability for sediment remediation, as the final resolution of this matter cannot be predicted at this time.

***Other***

We are in discussions with the MDE regarding a former MGP site located in Cambridge, Maryland. The outcome of this matter cannot be determined at this time; therefore, we have not recorded an environmental liability for this location.

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**Table of Contents****6. Other Commitments and Contingencies*****Litigation***

On March 2, 2011, the City of Marianna filed a complaint against FPU in the Circuit Court of the Fourteenth Judicial Circuit in and for Jackson County, Florida. In the complaint, the City of Marianna alleged three breaches of the Franchise Agreement by FPU: (i) FPU failed to develop and implement TOU and interruptible rates that were mutually agreed to by the City of Marianna and FPU; (ii) mutually agreed upon TOU and interruptible rates by FPU were not effective or in effect by February 17, 2011; and (iii) FPU did not have such rates available to all of FPU's customers located within and without the corporate limits of the City of Marianna. The City of Marianna is seeking a declaratory judgment allowing it to exercise its option under the Franchise Agreement to purchase FPU's property (consisting of the electric distribution assets) within the City of Marianna. Any such purchase would be subject to approval by the Marianna Commission, which would also need to approve the presentation of a referendum to voters in the City of Marianna related to the purchase and the operation by the City of Marianna of an electric distribution facility. If the purchase is approved by the Marianna Commission and the referendum is approved by the voters, the closing of the purchase must occur within 12 months after the referendum is approved. On March 28, 2011, FPU filed its answer to the declaratory action by the City of Marianna, in which it denied the material allegations by the City of Marianna and asserted several affirmative defenses. On August 3, 2011, the City of Marianna notified FPU that it was formally exercising its option to purchase FPU's property. On August 31, 2011, FPU advised the City of Marianna that it has no right to exercise the purchase option under the Franchise Agreement and that FPU would continue to oppose the effort by the City of Marianna to purchase FPU's property. In December 2011, the City of Marianna filed a motion for summary judgment. FPU opposed the motion. On April 3, 2012, the court conducted a hearing on the City of Marianna's motion for summary judgment. The court subsequently denied in part and granted in part the City of Marianna's motion after concluding that fact issues remained for trial with respect to each of the three alleged breaches of the Franchise Agreement. Mediation was conducted on May 11, 2012, and again on July 6, 2012, but no resolution was reached. The parties will continue to conduct informal negotiations to explore a potential settlement. The case is currently scheduled for trial on October 29, 2012. Unless resolved through informal negotiations, we anticipate that the case will be tried and intend to defend this lawsuit vigorously. We also intend to oppose the adoption of any proposed referendum to approve the purchase of the FPU property by the City of Marianna. We have expensed approximately \$978,000 in legal costs associated with this litigation, approximately \$440,000 of which was expensed in 2012.

We are involved in certain other legal actions and claims arising in the normal course of business. We are 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 our consolidated financial position, results of operations or cash flows.

***Natural Gas, Electric and Propane Supply***

Our natural gas, electric and propane distribution operations have entered into contractual commitments to purchase gas, electricity and propane from various suppliers. The contracts have various expiration dates. We have a contract with an energy marketing and risk management company to manage a portion of our natural gas transportation and storage capacity. This contract expires on March 31, 2013.

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

In May 2012, PESCO renewed contracts to purchase natural gas from various suppliers. These contracts expire in May 2013.

FPU's electric fuel supply contracts require FPU to maintain an acceptable standard of creditworthiness based on specific financial ratios. FPU's agreement with JEA (formerly known as Jacksonville Electric Authority) requires FPU to comply with the following ratios based on the results of the prior 12 months: (a) total liabilities to tangible net worth less than 3.75 times, and (b) fixed charge coverage ratio greater than 1.5 times. If either ratio is not met by FPU, it has 30 days to cure the default or provide an irrevocable letter of credit if the default is not cured. FPU's electric fuel supply agreement with Gulf Power requires FPU to meet the following ratios based on the average of the prior six quarters: (a) funds from operations interest coverage ratio (minimum of 2 times), and (b) total debt to total capital (maximum of 65 percent). If

FPU fails to meet the requirements, it has to provide the supplier a written explanation of actions taken or proposed to be taken to become compliant. Failure to comply with the ratios specified in the Gulf Power agreement could result in FPU providing an irrevocable letter of credit. As of June 30, 2012, FPU was in compliance with all of the requirements of its fuel supply contracts.

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**Table of Contents****Corporate Guarantees**

The Board of Directors has authorized the Company to issue corporate guarantees securing obligations of our subsidiaries and to obtain letters of credit securing our obligations, including the obligations of our subsidiaries. The maximum authorized liability under such guarantees and letters of credit is \$45 million.

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily for our propane wholesale marketing subsidiary and our natural gas marketing subsidiary. These corporate guarantees provide for the payment of propane and natural gas purchases in the event of the respective subsidiary's default. Neither subsidiary has ever defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded in the condensed consolidated financial statements when incurred. The aggregate amount guaranteed at June 30, 2012 was \$27.7 million, with the guarantees expiring on various dates through June 2013.

Chesapeake guarantees the payment of FPU's first mortgage bonds. The maximum exposure under the guarantee is the outstanding principal plus accrued interest balances. The outstanding principal balances of FPU's first mortgage bonds approximate their carrying values (see Note 13, "Long-Term Debt," to the condensed consolidated financial statements for further details).

In addition to the corporate guarantees, we have issued a letter of credit for \$1.0 million, which expires on September 12, 2012, related to the electric transmission services for FPU's northwest electric division. We have also issued a letter of credit to our current primary insurance company for \$656,000, which expires on December 2, 2012, as security to satisfy the deductibles under our various outstanding insurance policies. As a result of a change in our primary insurance company in 2010, we renewed the letter of credit for \$725,000 to our former primary insurance company, which will expire on June 1, 2013. There have been no draws on these letters of credit as of June 30, 2012. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that the letters of credit will be renewed to the extent necessary in the future.

We provided a letter of credit for \$2.5 million to TETLP related to the Precedent Agreement between our Delaware and Maryland divisions and TETLP (the "Precedent Agreement"), which is described below.

**Agreements for Access to New Natural Gas Supplies**

On April 8, 2010, our Delaware and Maryland divisions entered into the Precedent Agreement to secure firm transportation service from TETLP in conjunction with its new expansion project, which is expected to expand TETLP's mainline system by up to 190,000 Dts/d. The Precedent Agreement provides that, upon satisfaction of certain conditions, the parties will execute two firm transportation service contracts, one for our Delaware division and one for our Maryland division, for 34,100 Dts/d and 15,900 Dts/d, respectively. The 34,100 Dts/d for our Delaware division and the 15,900 Dts/d for our Maryland division reflect the additional volume subscribed to by our divisions above the volume originally agreed to by the parties. These contracts will be effective on the service commencement date of the project, which is currently projected to occur in November 2012. Each firm transportation service contract shall, among other things, provide for: (a) the maximum daily quantity of Dts/d described above; (b) a term of 15 years; (c) a receipt point at Clarington, Ohio; (d) a delivery point at Honey Brook, Pennsylvania; and (e) certain credit standards and requirements for security. Commencement of service and TETLP's and our rights and obligations under the two firm transportation service contracts are subject to satisfaction of various conditions specified in the Precedent Agreement.

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Our Delmarva natural gas supplies have been received primarily from the Gulf of Mexico natural gas production region and have been transported through three interstate upstream pipelines, which interconnect directly or indirectly with Eastern Shore's transmission system. The new firm transportation service contracts between our Delaware and Maryland divisions and TETLP will provide gas supply through an interconnection with Eastern Shore's transmission system and provide access to new sources of supply from other natural gas production regions, including the Appalachian production region, thereby providing increased reliability and diversity of supply. They will also provide our Delaware and Maryland divisions with additional upstream transportation capacity to meet current customer demands and to plan for sustainable growth.

The Precedent Agreement provides that the parties shall promptly meet and work in good faith to negotiate a mutually acceptable reservation rate. In accordance with the Precedent Agreement, our Delaware and Maryland divisions executed the required reservation rate agreements with TETLP on July 2, 2010.

The Precedent Agreement requires us to reimburse TETLP for our proportionate share of TETLP's pre-service costs incurred to date, if we terminate the Precedent Agreement, are unwilling or unable to perform our material duties and obligations thereunder, or take certain other actions whereby TETLP is unable to obtain the authorizations and exemptions required for this project. If such termination were to occur, we estimate that our proportionate share of TETLP's pre-service costs could be approximately \$25.5 million as of June 30, 2012. If we were to terminate the Precedent Agreement after TETLP completed its construction of all facilities, which is expected to be in the fourth quarter of 2012, our proportionate share could be as much as approximately \$50 million. The actual amount of our proportionate share of such costs could differ significantly and would ultimately be based on the level of pre-service costs at the time of any potential termination. As our Delaware and Maryland divisions have now executed the required reservation rate agreements with TETLP, we believe that the likelihood of terminating the Precedent Agreement and having to reimburse TETLP for our proportionate share of TETLP's pre-service costs is remote.

As previously mentioned, we have provided a letter of credit to TETLP for \$2.5 million, which is the maximum amount required under the Precedent Agreement.

On March 17, 2010, our Delaware and Maryland divisions entered into a separate precedent agreement with Eastern Shore to extend its mainline by eight miles to interconnect with TETLP at Honey Brook, Pennsylvania. Eastern Shore completed the extension project in December 2010 and commenced the service in January 2011. The rate for the transmission service on this extension is Eastern Shore's current tariff rate for service in that area.

In November 2011, TETLP obtained the necessary authorizations from the FERC for construction and operation of its portion of the project. Our Delaware and Maryland divisions require no regulatory approvals or exemptions to receive transmission service from TETLP or Eastern Shore.

As the Eastern Shore and TETLP transmission services commence, our Delaware and Maryland divisions incur costs for those services based on the agreed and FERC-approved reservation rates, which will become an integral component of the costs associated with providing natural gas supplies to our Delaware and Maryland divisions and will be included in the annual GSR filings for each of our respective divisions.

***Non-income-based Taxes***

From time to time, we are subject to various audits and reviews by the states and other regulatory authorities regarding non-income-based taxes. We are currently undergoing sales tax audits in Florida. As of June 30, 2012 and December 31, 2011, we maintained accruals of \$173,000 and \$307,000, respectively, related to additional sales taxes and gross receipts taxes that we may owe to various states.

**Table of Contents****7. Segment Information**

We use the management approach to identify operating segments. We organize our business around differences in regulatory environment and/or products or services, and the operating results of each segment are regularly reviewed by the chief operating decision maker (our Chief Executive Officer) in order to make decisions about resources and to assess performance. The segments are evaluated based on their pre-tax operating income. Our operations comprise three operating segments:

- *Regulated Energy.* The regulated energy segment includes natural gas distribution, electric distribution and natural gas transmission operations. All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of Eastern Shore.
- *Unregulated Energy.* The unregulated energy segment includes natural gas marketing, propane distribution and propane wholesale marketing operations, which are unregulated as to their rates and charges for their services.
- *Other.* The "other" segment consists primarily of the advanced information services operation, unregulated subsidiaries that own real estate leased to Chesapeake and certain corporate costs not allocated to other operations.

The following table presents information about our reportable segments.

For the Periods Ended June 30, (in thousands)	Three Months Ended		Six Months Ended	
	2012	2011	2012	2011
<b>Operating Revenues, Unaffiliated Customers</b>				
Regulated Energy	\$54,330	\$54,011	\$126,348	\$138,695
Unregulated Energy\	25,176	29,692	70,063	88,442
Other	4,391	3,128	8,400	6,292
Total operating revenues, unaffiliated customers	<u>\$83,897</u>	<u>\$86,831</u>	<u>\$204,811</u>	<u>\$233,429</u>
<b>Intersegment Revenues <sup>(1)</sup></b>				
Regulated Energy	\$ 1,223	\$ 182	\$ 1,501	\$ 368
Unregulated Energy	—	—	—	—
Other	221	195	456	389
Total intersegment revenues	<u>\$ 1,444</u>	<u>\$ 377</u>	<u>\$ 1,957</u>	<u>\$ 757</u>
<b>Operating Income</b>				
Regulated Energy	\$10,505	\$ 7,787	\$ 25,303	\$ 24,020
Unregulated Energy	(401)	80	4,753	8,669
Other and eliminations	351	(91)	472	(74)
Total operating income	<u>10,455</u>	<u>7,776</u>	<u>30,528</u>	<u>32,615</u>
Other income, net of other expenses	153	27	349	50
Interest	<u>2,241</u>	<u>2,114</u>	<u>4,532</u>	<u>4,265</u>
Income before income taxes	<u>8,367</u>	<u>5,689</u>	<u>26,345</u>	<u>28,400</u>
Income taxes	<u>3,307</u>	<u>2,169</u>	<u>10,558</u>	<u>11,133</u>
Net income	<u>\$ 5,060</u>	<u>\$ 3,520</u>	<u>\$ 15,787</u>	<u>\$ 17,267</u>

<sup>(1)</sup> All significant intersegment revenues are billed at market rates and have been eliminated from consolidated operating revenues.

(in thousands)	June 30, 2012	December 31, 2011
<b>Identifiable Assets</b>		
Regulated energy	\$572,073	\$ 565,563
Unregulated energy	70,166	107,916
Other	37,461	35,587
Total identifiable assets	<u>\$679,700</u>	<u>\$ 709,066</u>

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Our operations are almost entirely domestic. Our advanced information services subsidiary, BravePoint, has infrequent transactions in foreign countries, primarily Canada, which are denominated and paid in U.S. dollars. These transactions are immaterial to the consolidated revenues.

### 8. Employee Benefit Plans

Net periodic benefit costs for our pension and post-retirement benefits plans for the three and six months ended June 30, 2012 and 2011 are set forth in the following table:

	Chesapeake Pension Plan		FPU Pension Plan		Chesapeake SERP		Chesapeake Postretirement Plan		FPU Medical Plan	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>For the Three Months Ended June 30,</b>										
<i>(in thousands)</i>										
Service Cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 40	\$ 27
Interest Cost	125	130	639	672	22	27	15	15	45	39
Expected return on plan assets	(109)	(101)	(657)	(684)	—	—	—	—	—	—
Amortization of prior service cost	(2)	(2)	—	—	5	5	(20)	—	—	—
Amortization of net loss	85	39	44	—	12	9	17	—	22	5
Net periodic cost (benefit)	99	66	26	(12)	39	41	12	15	107	71
Amortization of pre-merger regulatory asset	—	—	191	191	—	—	—	—	2	2
Total periodic cost	<u>\$ 99</u>	<u>\$ 66</u>	<u>\$ 217</u>	<u>\$ 179</u>	<u>\$ 39</u>	<u>\$ 41</u>	<u>\$ 12</u>	<u>\$ 15</u>	<u>\$ 109</u>	<u>\$ 73</u>
<b>For the Six Months Ended June 30,</b>										
<i>(in thousands)</i>										
Service Cost	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 80	\$ 53
Interest Cost	250	260	1,278	1,343	45	54	30	30	90	78
Expected return on plan assets	(218)	(202)	(1,315)	(1,368)	—	—	—	—	—	—
Amortization of prior service cost	(3)	(3)	—	—	10	10	(40)	—	—	—
Amortization of net loss	170	78	88	—	23	19	35	—	45	10
Net periodic cost (benefit)	199	133	51	(25)	78	83	25	30	215	141
Settlement expense	—	217	—	—	—	—	—	—	—	—
Amortization of pre-merger regulatory asset	—	—	381	381	—	—	—	—	4	4
Total periodic cost	<u>\$ 199</u>	<u>\$ 350</u>	<u>\$ 432</u>	<u>\$ 356</u>	<u>\$ 78</u>	<u>\$ 83</u>	<u>\$ 25</u>	<u>\$ 30</u>	<u>\$ 219</u>	<u>\$ 145</u>

We expect to record pension and postretirement benefit costs of approximately \$1.9 million for 2012. Included in that amount is \$769,000 related to continued amortization of the FPU pension regulatory asset, which represents the portion attributable to FPU's regulated energy operations of the changes in funded status that occurred but were not recognized as part of net periodic benefit costs prior to the merger. This was deferred as a regulatory asset by FPU prior to the merger to be recovered through rates pursuant to a previous order by the Florida PSC. The unamortized balance of this regulatory asset was \$5.5 million and \$5.9 million at June 30, 2012 and December 31, 2011, respectively.

During the three and six months ended June 30, 2012, we contributed \$110,000 and \$273,000 respectively, to the Chesapeake pension plan. We also contributed \$413,000 and \$705,000, respectively, to the FPU pension plan during the three and six months ended June 30, 2012. On June 29, 2012, the U.S. Congress passed the "Moving Ahead for Progress in the 21<sup>st</sup> century Act" (also known as the "Transportation and Student Loan Bill"). Included in this legislation was pension funding relief, which allowed pension sponsors to use 25-year average corporate bond rates rather than current interest rates, which are lower, to measure pension obligations for pension funding purposes. Although this legislation does not affect accounting for pension plans, the use of higher interest rates to measure pension obligations for funding purposes reduces the minimum pension contribution requirements. We initially estimated our 2012 contributions to the Chesapeake and FPU pension plans to be \$1.3 million and \$2.0 million, respectively, which include minimum contribution payments required in 2012 using the current interest rate to measure pension obligations and any additional contributions that we may make to maintain a certain level of funding in those plans. We estimate that the new legislation could reduce our 2012 contributions to the Chesapeake and FPU pension plans by as much as \$915,000 and \$1.2 million, respectively.



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The Chesapeake Pension Supplemental Executive Retirement Plan (“SERP”), the Chesapeake Postretirement Plan and the FPU Medical Plan are unfunded and are expected to be paid out of our general funds. Cash benefits paid under the Chesapeake Pension SERP for the three and six months ended June 30, 2012, were \$22,000 and \$45,000, respectively; we expect to pay cash benefits of approximately \$88,000 in 2012. Cash benefits paid for the Chesapeake Postretirement Plan, primarily for medical claims for the three and six months ended June 30, 2012, totaled \$28,000 and \$40,000, respectively, and we have estimated that approximately \$87,000 will be paid for such benefits in 2012. Cash benefits paid for the FPU Medical Plan, primarily for medical claims for the three and six months ended June 30, 2012, totaled \$100,000 and \$158,000, respectively. We have estimated that approximately \$193,000 will be paid for such benefits in 2012.

### 9. Investments

The investment balance at June 30, 2012, represents: (a) a Rabbi Trust associated with our Supplemental Executive Retirement Savings Plan, (b) a Rabbi Trust related to the deferral of certain director compensation, and (c) investments in equity securities. We classify these investments as trading securities and report them at their fair value. We recorded \$185,000 and \$502,000, for an unrealized gain, net of other expenses, in other income in the consolidated statements of income for the three and six months ended June 30, respectively. We also have recorded an associated liability that is adjusted each month for the gains and losses incurred by the Rabbi Trusts. At June 30, 2012 and December 31, 2011, total investments had a fair value of \$4.7 million and \$4.0 million, respectively.

### 10. Share-Based Compensation

Our non-employee directors and key employees are awarded share-based awards through our Directors Stock Compensation Plan (“DSCP”) and our Performance Incentive Plan (“PIP”), respectively. We record these share-based awards as compensation costs over the respective service period for which services are received in exchange for an award of equity or equity-based compensation. The compensation cost is based primarily on the fair value of the grant on the date it was awarded.

The table below presents the amounts included in net income related to share-based compensation expense for the awards granted under the DSCP and the PIP for the three and six months ended June 30, 2012 and 2011:

<u>For the Periods Ended June 30,</u> <i>(in thousands)</i>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Directors Stock Compensation Plan	\$ 111	\$ 102	\$ 222	\$ 185
Performance Incentive Plan	240	274	475	520
Total compensation expense	351	376	697	705
Less: tax benefit	(141)	(151)	(280)	(283)
Share-Based Compensation amounts included in net income	<u>\$ 210</u>	<u>\$ 225</u>	<u>\$ 417</u>	<u>\$ 422</u>

**Table of Contents****Directors Stock Compensation Plan**

Shares granted under the DSCP are issued in advance of the directors' service periods and are fully vested as of the date of the grant. We record a prepaid expense of the shares issued and amortize the expense equally over a service period of one year.

In May 2012, each of our non-employee directors received an annual retainer of 900 shares of common stock under the DSCP. A summary of stock activity under the DSCP during the six months ended June 30, 2012 is presented below.

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding — December 31, 2011	—	—
Granted	10,800	\$ 41.06
Vested	10,800	\$ 41.06
Forfeited	—	—
Outstanding — June 30, 2012	—	—

At June 30, 2012, there was \$370,000 of unrecognized compensation expense related to the DSCP awards. This expense is expected to be recognized over the directors' remaining service period ending April 30, 2013.

**Performance Incentive Plan**

The table below presents the summary of the stock activity for the PIP for the six months ended June 30, 2012:

	<u>Number of Shares</u>	<u>Weighted Average Fair Value</u>
Outstanding — December 31, 2011	87,414	\$ 34.47
Granted	30,906	\$ 38.79
Vested	13,837	\$ 29.84
Forfeited <sup>(1)</sup>	21,600	\$ 35.55
Expired	3,038	\$ 26.29
Outstanding — June 30, 2012	79,845	\$ 37.44

- <sup>(1)</sup> Includes shares settled with a cash payment pursuant to the terms of a separation agreement with a former named executive officer.

In January 2012, the Board of Directors granted awards under the PIP for 30,906 shares. The shares granted in January 2012 are multi-year awards that will vest at the end of the three-year service period, or December 31, 2014. These awards are earned based upon the successful achievement of long-term goals, growth and financial results, which comprised both market-based and performance-based conditions or targets. The fair value of each performance-based condition or target is equal to the market price of our 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.

Effective February 24, 2012, one of our named executive officers, who was a participant in the PIP, resigned. Pursuant to a separation agreement entered into between the Company and the named executive officer, the executive officer received a cash payment of \$181,500 and other benefits in lieu of other performance-based compensation, which he might have been entitled to receive.

At June 30, 2012, the aggregate intrinsic value of the PIP awards was \$1.2 million.

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### 11. Derivative Instruments

We use derivative and non-derivative contracts to engage in trading activities and manage risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. Our natural gas, electric and propane distribution operations have entered into agreements with suppliers to purchase natural gas, electricity and propane for resale to their customers. Purchases under these contracts either do not meet the definition of derivatives or are considered "normal purchases and sales" and are accounted for on an accrual basis. Our propane distribution operation may also enter into fair value hedges of its inventory in order to mitigate the impact of wholesale price fluctuations. As of June 30, 2012, our natural gas and electric distribution operations did not have any outstanding derivative contracts.

In May 2012, our propane distribution operation entered into call options to protect against an increase in propane prices associated with 1,260,000 gallons purchased for the propane price cap program in December 2012 through March 2013. The call options are exercised if the propane prices rise above the strike prices, which range from \$0.905 per gallon to \$0.99 per gallon during this four-month period. We will receive the difference between the market price and the strike price during those months. We paid \$139,000 to purchase the call options and we accounted for the call options as a fair value hedge. As of June 30, 2012, the call options had a fair value of \$123,000. There has been no ineffective portion of this fair value hedge thus far in 2012.

In August 2011, our propane distribution operation entered into a put option to protect against the decline in propane prices and related potential inventory losses associated with 630,000 gallons purchased for the propane price cap program in the upcoming heating season. This put option was exercised as the propane prices fell below the strike price of \$1.445 per gallon in January through March of 2012. We received \$118,000 representing the difference between the market price and the strike price during those months. We had paid \$91,000 to purchase the put option, and we accounted for it as a fair value hedge.

Xeron, our propane wholesale and marketing subsidiary, engages in trading activities using forward and futures contracts. These contracts are considered derivatives and have been accounted for using the mark-to-market method of accounting. Under the mark-to-market method of accounting, the trading contracts are recorded at fair value, and the changes in fair value of those contracts are recognized as unrealized gains or losses in the statement of income in the period of change. As of June 30, 2012, we had the following outstanding trading contracts, which we accounted for as derivatives:

<u>At June 30, 2012</u>	<u>Quantity in Gallons</u>	<u>Estimated Market Prices</u>	<u>Weighted Average Contract Prices</u>
<b>Forward Contracts</b>			
Sale	5,754,000	\$0.7200 — \$1.3775	\$ 0.8933
Purchase	5,670,000	\$0.6825 — \$1.3300	\$ 0.8724

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

*All contracts expire by the first quarter of 2013.*

The following tables present information about the fair value and related gains and losses of our derivative contracts. We did not have any derivative contracts with a credit-risk-related contingency.

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Fair values of the derivative contracts recorded in the condensed consolidated balance sheet as of June 30, 2012 and December 31, 2011, are as follows:

<i>(in thousands)</i>	Asset Derivatives		
	Balance Sheet Location	Fair Value	
		June 30, 2012	December 31, 2011
<b>Derivatives not designated as hedging instruments</b>			
Forward contracts	Mark-to-market energy assets	\$ 462	\$ 1,686
<b>Derivatives designated as fair value hedges</b>			
Put option <sup>(1)</sup>	Mark-to-market energy assets	—	68
Call option <sup>(2)</sup>	Mark-to-market energy assets	123	—
Total asset derivatives		<u>\$ 585</u>	<u>\$ 1,754</u>

<i>(in thousands)</i>	Liability Derivatives		
	Balance Sheet Location	Fair Value	
		June 30, 2012	December 31, 2011
<b>Derivatives not designated as hedging instruments</b>			
Forward contracts	Mark-to-market energy liabilities	\$ 504	\$ 1,496
Total liability derivatives		<u>\$ 504</u>	<u>\$ 1,496</u>

- (1) We purchased a put option for the Pro-Cap Plan in August 2011. The put option, which expired in March 2012, had a fair value of \$0 at June 30, 2012.
- (2) As a fair value hedge with no ineffective portion, the unrealized gains and losses associated with this call option are recorded in cost of sales, offset by the corresponding change in the value of propane inventory (hedged item), which is also recorded in cost of sales. The amounts in cost of sales offset to zero and the unrealized gains and losses of this call option effectively changed the value of propane inventory.

The effects of gains and losses from derivative instruments on the condensed consolidated financial statements are as follows:

<i>(in thousands)</i>	Location of Gain (Loss) on Derivatives	Amount of Gain (Loss) on Derivatives			
		For the Three Months Ended June 30,		For the Six Months Ended June 30,	
		2012	2011	2012	2011
<b>Derivatives not designated as hedging instruments:</b>					
Unrealized gain (loss) on forward contracts	Revenue	\$ (172)	\$ (112)	\$ (232)	\$ (30)
<b>Derivatives designated as fair value hedges:</b>					
Put Option	Cost of sales	—	—	27	—
Call Option <sup>(1)</sup>	Inventory	(16)	—	(16)	—
Total		<u>\$ (188)</u>	<u>\$ (112)</u>	<u>\$ (221)</u>	<u>\$ (30)</u>

- (1) The change in fair value of the call option effectively adjusts the propane inventory balance until it is exercised, at which point the proceeds, if any, reduce cost of sales. There is no ineffective portion of this call option.

The effects of trading activities on the condensed consolidated statements of income are the following:

<i>(in thousands)</i>	Location in the Statement of Income	Three Months Ended June 30,		Six Months Ended June 30,	
		2012	2011	2012	2011
Realized gains on forward contracts/put option	Revenue	\$ 807	\$ 647	\$ 1,321	\$ 1,554
Unrealized loss on forward contracts	Revenue	(172)	(112)	(232)	(30)
Total		<u>\$ 635</u>	<u>\$ 535</u>	<u>\$ 1,089</u>	<u>\$ 1,524</u>

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### 12. Fair Value of Financial Instruments

GAAP 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 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 our 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, 2012:

<i>(in thousands)</i>	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets:</b>				
Investments—equity securities	\$ 2,594	\$ 2,594	\$ —	\$ —
Investments—other	\$ 2,097	\$ 2,098	\$ —	\$ —
Mark-to-market energy assets, including call option	\$ 585	\$ —	\$ 585	\$ —
<b>Liabilities:</b>				
Mark-to-market energy liabilities	\$ 504	\$ —	\$ 504	\$ —

The following table summarizes our 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, 2011:

<i>(in thousands)</i>	<u>Fair Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<b>Assets:</b>				
Investments—equity securities	\$ 2,224	\$ 2,224	\$ —	\$ —
Investments—other <sup>(1)</sup>	\$ 1,734	\$ 1,734	\$ —	\$ —
Mark-to-market energy assets, including put option	\$ 1,754	\$ —	\$ 1,754	\$ —
<b>Liabilities:</b>				
Mark-to-market energy liabilities	\$ 1,496	\$ —	\$ 1,496	\$ —

<sup>(1)</sup> The current portion of this investment (\$40) is included in other current assets in the accompanying consolidated balance sheets.

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The following valuation techniques were used to measure fair value assets in the table above on a recurring basis as of June 30, 2012 and December 31, 2011:

**Level 1 Fair Value Measurements:**

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

*Investments- other* - The fair values of these investments, comprised of money market and mutual funds, are recorded at fair value based on quoted net asset values of the shares.

**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 over the counter (“OTC”) markets.

*Propane put/call option* – The fair value of the propane put option is determined using market transactions for similar assets and liabilities in either the listed or OTC markets.

At June 30, 2012, there were no non-financial assets or liabilities required to be reported at fair value. We review our non-financial assets for impairment at least on an annual basis, as required.

***Other Financial Assets and Liabilities***

Financial assets with carrying values approximating fair value include cash and cash equivalents and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and other accrued liabilities and short-term debt. The fair value of cash and cash equivalents is measured using the comparable value in the active market and approximates its carrying value (Level 1 measurement). The fair value of short-term debt approximates the carrying value due to its short maturities and because interest rates approximate current market rates (Level 3 measurement).

At June 30, 2012, long-term debt, which includes the current maturities of long-term debt, had a carrying value of \$117.0 million, compared to a fair value of \$140.2 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, with adjustments for duration, optionality, and risk profile. At December 31, 2011, long-term debt, including the current maturities, had a carrying value of \$118.5 million, compared to the estimated fair value of \$142.3 million. The valuation technique used to estimate the fair value of long-term debt would be considered Level 3 measurement.

Table of Contents**13. Long-Term Debt**

Our outstanding long-term debt is shown below:

<i>(in thousands)</i>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
FPU secured first mortgage bonds <sup>(A)</sup> :		
9.57% bond, due May 1, 2018	\$ 5,442	\$ 6,348
10.03% bond, due May 1, 2018	2,993	3,492
9.08% bond, due June 1, 2022	7,960	7,958
Uncollateralized senior notes:		
7.83% note, due January 1, 2015	6,000	6,000
6.64% note, due October 31, 2017	16,363	16,363
5.50% note, due October 12, 2020	18,000	18,000
5.93% note, due October 31, 2023	30,000	30,000
5.68% note, due June 30, 2026	29,000	29,000
Convertible debentures:		
8.25% due March 1, 2014	1,038	1,134
Promissory note	155	186
Total long-term debt	<u>116,951</u>	<u>118,481</u>
Less: current maturities	<u>(8,196)</u>	<u>(8,196)</u>
Total long-term debt, net of current maturities	<u>\$108,755</u>	<u>\$ 110,285</u>

(A) FPU secured first mortgage bonds are guaranteed by Chesapeake.

On June 23, 2011, we issued \$29.0 million of 5.68 percent unsecured senior notes to Metropolitan Life Insurance Company and New England Life Insurance Company, pursuant to an agreement we entered into with them on June 29, 2010. These notes require annual principal payments of \$2.9 million beginning in the sixth year after the issuance. We used the proceeds to permanently finance the redemption of the 6.85 percent and 4.90 percent series of FPU first mortgage bonds. These redemptions occurred in January 2010 and were previously financed by Chesapeake's short-term loan facilities. Under the same agreement, we may issue an additional \$7.0 million of unsecured senior notes prior to May 3, 2013, at a rate ranging from 5.28 percent to 6.43 percent based on the timing of the issuance. These notes, if issued, will have similar covenants and default provisions as the senior notes issued in June 2011.

**14. Short-Term Borrowing**

On June 22, 2012, we entered into a new \$40 million unsecured, short-term credit facility with an existing lender. The credit facility, which was structured in the form of a revolving credit note maturing on June 1, 2013, increases the short-term loan capacity available from this lender from \$50 million to \$90 million, and the total short-term loan capacity available to us from all lenders from \$100 million to \$140 million, during that period. Borrowings under this new facility bear interest at LIBOR plus 80 basis points or, at our discretion, this lender's Base Rate (as defined in the term note agreement) plus 80 basis points. Other terms and conditions of this facility are substantially the same as the existing other loan facilities available from the same lender. The maximum aggregate short-term borrowing authorized by our Board of Directors remains at \$85 million.



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### **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 is designed to provide a reader of the financial statements with a narrative report on our 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 our Annual Report on Form 10-K, as amended, for the year ended December 31, 2011, including the audited consolidated financial statements and notes thereto.

#### **Safe Harbor for Forward-Looking Statements**

We make statements in this Quarterly Report on Form 10-Q 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. One 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 our intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives of the Company. These statements are subject to many risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in the forward-looking statements. Such factors include, but are not limited to:

- 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;
- the loss of customers due to government-mandated sale of our utility distribution facilities;
- industrial, commercial and residential growth or contraction in our service territories;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes and ice storms and other damaging weather events;
- 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 external factors over which we have no control;
- changes in environmental and other laws and regulations to which we are subject and environmental conditions of property that we now or may in the future own or operate;
- the results of financing efforts, including our 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 our defined benefit pension plans;
- the creditworthiness of counterparties with which we are engaged in transactions;
- opportunities for growth in our business units;
- the extent of success in connecting natural gas and electric supplies to transmission systems and in expanding natural 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, 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;

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- the ability to manage, maintain and grow key customer relationships;
- the ability to maintain and establish new key supply sources;
- the effect of spot, forward and future market prices on our distribution, wholesale marketing and energy trading businesses;
- the effect of competition on our businesses;
- the ability to construct facilities at or below estimated costs;
- changes in technology affecting our advanced information services business; and
- operation and litigation risks that may not be covered by insurance.

## **Introduction**

We are a diversified utility company engaged, directly or through subsidiaries, in regulated energy businesses, unregulated energy businesses, and other unregulated businesses, including advanced information services.

Our 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 regulated energy distribution and transmission businesses into new geographic areas and providing new services 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 our 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 us to access capital as needed;
- maintaining a consistent and competitive dividend for shareholders; and
- creating and maintaining a diversified customer base, energy portfolio and utility foundation.

Due to the seasonality of our business, results for interim periods are not necessarily indicative of results for the entire fiscal year. Revenue and earnings are typically greater during the first and fourth quarters, when consumption of energy is normally highest due to colder temperatures.

*The following discussions and those later in the document on operating income and segment results include the 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, electricity 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. We believe 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 energy operations and under its competitive pricing structure for unregulated natural gas marketing and propane distribution operations. Our management uses gross margin in measuring our business units' performance and has historically analyzed and reported gross margin information publicly. Other companies may calculate gross margin in a different manner.*

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### **Summary of Key Factors**

The following is a summary of key factors affecting our businesses and their impact on our results during the periods presented as well as the future.

#### Growth

We continue to see growth in our natural gas businesses from our efforts over the past several years to expand our services. We are committed to delivering clean-burning, environmentally friendly natural gas to customers, and we are identifying and developing additional opportunities that will generate growth over the next several years.

New natural gas transmission services and growth in natural gas distribution customers generated \$1.1 million and \$632,000, respectively, in additional gross margin for the second quarter of 2012, compared to the same quarter in 2011. New natural gas transmission services and growth in natural gas distribution customers generated \$1.7 million and \$1.3 million, respectively, in additional gross margin for the first six months of 2012, compared to the same period in 2011. Most of these increases in gross margin were related to continued execution of our strategic plan, with the objectives of expanding natural gas service to new areas and identifying opportunities to convert large commercial and industrial customers to natural gas. New services are being initiated by our natural gas transmission subsidiaries in response to increased demand for natural gas service on the Delmarva Peninsula and in Florida, both from our natural gas distribution operations and other unaffiliated customers directly connected to the transmission systems.

#### *Major Expansion Initiatives and Customer Growth Reflected in Results*

In late 2011 and during the first six months of 2012, we expanded natural gas transmission and distribution services to Lewes, Delaware, southeastern Sussex County, Delaware and Nassau County, Florida and also initiated natural gas transmission service in Worcester County, Maryland. These major expansion initiatives increased our natural gas footprint by providing natural gas service in areas where natural gas was not previously available. These initiatives generated \$866,000 of additional gross margin for the natural gas transmission operations and \$139,000 of additional gross margin for the natural gas distribution operations during the second quarter of 2012. For the first six months of 2012, these initiatives generated \$1.1 million and \$286,000 of additional gross margin for the natural gas transmission and distribution operations, respectively. New transmission services associated with these initiatives are expected to generate gross margin of \$3.0 million in 2012 (\$1.9 million expected to generate in the second half of the year), compared to \$156,000 in 2011 (all of which occurred in the fourth quarter) and \$3.9 million in annualized gross margin thereafter. New distribution services associated with these initiatives, which include new distribution service to two large industrial customers in Lewes, Delaware and two facilities of an existing customer located in southeastern Sussex County, Delaware, are expected to generate gross margin of \$552,000 in 2012 (\$266,000 expected to generate in the second half of the year) and \$616,000 in annualized gross margin thereafter.

In addition to the major expansion initiatives, the Delmarva natural gas distribution operation has added 10 other new large industrial and commercial customers since the beginning of 2011, which generated \$161,000 in additional gross margin in the second quarter of 2012 and \$343,000 in the first six months of 2012, compared to the same periods in 2011, respectively. These 10 new customers are expected to generate \$960,000 of gross margin in 2012, compared to \$429,000 generated in 2011. Customer growth in Florida, primarily in commercial and industrial customers, also generated \$241,000 and \$362,000 in additional gross margin in the second quarter and first six months of 2012, respectively.

#### *Future Major Expansion Initiatives and Opportunities*

Although not affecting our results in the second quarter and first six months of 2012, we are continuing our effort to extend natural gas service to Cecil County, Maryland. Service by Eastern Shore, our interstate natural gas transmission subsidiary, is expected to commence in September 2012. This expansion is expected to generate annual gross margin of \$882,000, \$294,000 of which will be recorded in 2012.

Eastern Shore also executed precedent agreements with NRG Energy Center Dover LLC ("NRG") and PBF Energy Inc. ("Delaware City Refinery") to further expand its transmission system to provide additional services. A firm transportation service agreement is expected to be executed by NRG and Delaware City Refinery with Eastern Shore upon satisfying certain conditions pursuant to the respective precedent agreements. These additional services are expected to be initiated in mid to late 2013. The additional transmission service to NRG is expected to generate estimated annual gross margin of \$2.4 to \$2.8 million. The additional transmission service to Delaware City Refinery is expected to generate estimated annual gross margin of \$1.6 million.



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As we expand our natural gas service to new areas, first through transmission service and distribution service to large industrial customers, our natural gas distribution operations continue to pursue additional opportunities to provide service to residential and other commercial and industrial customers in those areas. In an effort to increase the availability of natural gas within our Delaware service areas, in June 2012, our Delaware natural gas distribution division filed an application with the Delaware PSC to add several natural gas expansion service offerings. These offerings include a monthly fixed charge in lieu of upfront contributions from customers to extend the distribution system and optional service offerings to assist customers in the process of converting to natural gas. The goal of these new offerings is to meet the energy needs of residents, communities and businesses throughout our service territory, specifically in areas of southeastern Sussex County, where natural gas will now be available.

### *Acquisition*

In June 2012, we entered into an agreement to purchase the operating assets of ESG. These assets are currently used to provide propane distribution service to approximately 11,000 residential and commercial customers through underground propane gas distribution systems and bulk propane delivery service to over 500 customers in Worcester County, Maryland. We are evaluating the potential conversion of some of these underground propane distribution systems to natural gas where it is both economical and feasible. The transaction, which is subject to the approval of the Maryland PSC, the receipt of consents of certain local jurisdictions to the assignment of certain franchise agreements and satisfaction of other closing conditions, is expected to be completed in the fourth quarter of 2012. We expect to finance the acquisition using unsecured short-term debt. The acquisition is expected to be accretive to earnings per share in 2013 and thereafter.

### *Investing in Growth*

To continue to grow at the rates that we have in the past, we will be increasing our resources to both execute on current opportunities and identify new opportunities to fuel tomorrow's growth. We are at the early stages of several natural gas expansions on the Delmarva Peninsula. These include Lewes, Delaware, southeastern Sussex County, Delaware, and Worcester and Cecil Counties in Maryland. These expansions will not only require the construction or conversion of distribution facilities, but also require the conversion of customers' appliances or equipment inside their home. To do this we have re-organized our natural gas distribution operations and are increasing our staffing. Secondly, as a result of BravePoint's growth over the last several quarters, BravePoint is continuing to add staff. Finally, to increase our capacity for future growth we will be adding resources in several key functional areas. This includes, among others, the Human Resources, Communications and Strategic Business Development functions.

### Weather

Weather affects customer energy consumption, especially the consumption by residential and certain commercial customers during the peak heating and cooling seasons. Natural gas, electricity and propane are all used for heating in our service territories and we use the number of heating degree-days ("HDD") to analyze the weather impact. Only electricity is used for cooling, and we use the number of cooling degree-days ("CDD") to analyze the weather impact. 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 next day) falls above or below 65 degrees Fahrenheit. Each degree of temperature above or below 65 degrees Fahrenheit is counted as one CDD or one HDD. We use 10-year historical averages to define the "normal" weather for this analysis.

Although weather was not a significant factor in the second quarter, lower customer energy consumption directly attributable to warmer temperatures in the six months ended June 30, 2012, compared to temperatures in the same period in 2011, reduced gross margin by \$3.9 million, most of which occurred in the first three months of the year. Temperatures on the Delmarva Peninsula and in Florida in the first six months of 2012 were 19 percent (531 HDD) and 35 percent (187 HDD), respectively, warmer than the same period in 2011. Comparing first half 2012 temperatures to normal, based on the 10-year historic average of HDD, the weather on the Delmarva Peninsula and in Florida was 19 percent (556 HDD) and 41 percent (240 HDD), respectively, warmer than normal. We estimate that this variance reduced gross margin for the first half of 2012 by approximately \$3.5 million, compared to gross margin under normal temperatures.

CDD variations were not a significant factor during the first six months of 2012.

### Rates and Regulatory Matters

In January 2012, the Florida PSC issued an order, approving the recovery of \$34.2 million in acquisition adjustment and \$2.2 million in merger-related costs in connection with Chesapeake's acquisition of FPU in 2009. The inclusion of the acquisition

adjustment and merger-related costs in our rate base and the recovery of these assets through amortization expense will increase our earnings and cash flows above what FPU would have achieved absent the regulatory approval. The acquisition adjustment and merger-related costs are amortized over 30 years and five years, respectively, beginning in November 2009. Based upon the effective date and outcome of the order, we recorded the amortization as an expense in 2012, which increased amortization expense by \$588,000 in the second quarter of 2012 and \$1.2 million in the first six months of 2012. We expect to record \$2.4 million (\$1.4 million, net of tax) in amortization expense in 2012 and 2013, \$2.3 million (\$1.4 million, net of tax) in 2014 and \$1.8 million (\$1.1 million, net of tax) annually thereafter until 2039 related to these assets.

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### **Propane Prices**

Propane prices affect both retail and wholesale marketing margins. Our propane distribution operation usually benefits from rising propane prices by selling propane to its distribution customers based upon higher wholesale prices, while its average cost of inventory trails behind. Retail prices generally take into account replacement cost, along with other factors, such as competition and market conditions. When wholesale prices (replacement costs) increase, retail prices generally increase and our margins expand until the current wholesale price is fully reflected in the average cost of inventory. The opposite occurs when propane prices decline. Our propane wholesale marketing operation benefits from price volatility in the propane wholesale market by entering into trading transactions.

Gross margin from our Delmarva propane distribution operation decreased by \$581,000 and \$608,000 during the first three and six months of 2012, compared to the same periods in 2011, respectively, due to lower retail margins per gallon. This decrease was attributable to a significant decline in wholesale propane prices during 2012, which resulted in a write-down of \$338,000 and \$465,000 in the inventory value during the first three and six months of 2012. Our Florida propane distribution operation continued to adjust retail pricing in response to local market conditions and generated \$452,000 and \$1.1 million in additional gross margin during the first three and six months of 2012, compared to the same periods in 2011, respectively, from higher retail margins per gallon.

Xeron, our propane wholesale marketing subsidiary, executed trades with higher margins, which generated an increase in gross margin of \$100,000 in the second quarter of 2012, compared to the same quarter of 2011, as the market presented opportunities from the steady decline in wholesale prices. Xeron's gross margin decreased by \$435,000 in the first six months of 2012, compared to the same period in 2011, as a result of a 37-percent decrease in trading activity. High price volatility in the wholesale propane market during the first six months of 2011 resulted in higher-than-usual trading volume and profitability for Xeron. Lower price volatility during the first six months of 2012, coupled with lower wholesale propane demand, due partially to warmer weather, reduced Xeron's trading volume and gross margin in the first half of 2012.

### **Advanced Information Services**

BravePoint, our advanced information services subsidiary, reported operating income of \$238,000 and \$245,000 in the second quarter and first six months of 2012, compared to an operating loss of \$188,000 and \$283,000 in the same periods in 2011, respectively. Approximately 17 percent and nine percent of the period-over-period increase in BravePoint's operating income for the quarter and six-month period, respectively, was a result of ProfitZoom™ and Application Evolution™ sales and related services. The remaining increase was due to higher consulting revenues and other product sales.

BravePoint continues to market its new products, ProfitZoom™ and Application Evolution™. BravePoint generated \$284,000 and \$577,000 in revenue from the sale of those two products and related services during the second quarter of 2012, and first six months of 2012, respectively. To date, BravePoint has successfully implemented ProfitZoom™ for four customers in the fire suppression industry, and two additional customers have executed sales contracts with implementations scheduled in the second half of 2012. Application Evolution™, which is a component of ProfitZoom™, is being marketed to customers both in the fire suppression industry and other unrelated businesses. Nine customers are currently utilizing this product. These new contracts are expected to generate \$664,000 in additional revenue in the remainder of 2012. Additional sales proposals are under consideration by existing customers to expand their use of the product and also by other potential customers.

## **Results of Operations for the Quarter Ended June 30, 2012**

### **Overview and Highlights**

Our net income for the quarter ended June 30, 2012 was \$5.1 million, or \$0.52 per share (diluted). This represents an increase of \$1.5 million, or \$0.15 per share (diluted), compared to a net income of \$3.5 million, or \$0.37 per share (diluted), as reported for the same quarter in 2011.

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<u>For the Three Months Ended June 30,</u> <i>(in thousands except per share)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
<b>Business Segment:</b>			
Regulated Energy	\$10,505	\$7,787	\$ 2,718
Unregulated Energy	(401)	80	(481)
Other	351	(91)	442
<b>Operating Income</b>	<b>10,455</b>	<b>7,776</b>	<b>2,679</b>
Other Income	153	27	126
Interest Charges	2,241	2,114	127
Income Taxes	3,307	2,169	1,138
<b>Net Income</b>	<b>\$ 5,060</b>	<b>\$3,520</b>	<b>\$ 1,540</b>
<b>Earnings Per Share of Common Stock</b>			
Basic	\$ 0.53	\$ 0.37	\$ 0.16
Diluted	\$ 0.52	\$ 0.37	\$ 0.15

Highlights of our results in the second quarter of 2012 included:

- New natural gas transmission services generated \$1.1 million in additional gross margin.
- Growth from new natural gas distribution customers generated \$632,000 in additional gross margin.
- Amortization related to the recovery of the FPU acquisition adjustment and merger-related costs increased other operating expenses by \$588,000.
- Other items affecting our quarter-over-quarter results included:
  - An adjustment to accrued revenue of approximately \$568,000 (\$440,000 of which corresponds to the first quarter of 2012), which increased gross margin in the second quarter of 2012;
  - A \$549,000 non-recurring severance charge in the second quarter of 2011, which decreased other operating expenses for that quarter; and
  - An increase in BravePoint's operating income of \$425,000, approximately 17 percent of which was a result of ProfitZoom™ and Application Evolution™ sales and related services and the remaining of which was due to higher consulting revenues and other product sales.

The following section also provides a more detailed analysis of our results by segment.



**Table of Contents****Regulated Energy**

<u>For the Three Months Ended June 30,</u> <i>(in thousands, except degree-day and customer information)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Revenue	\$ 55,553	\$ 54,193	\$ 1,360
Cost of sales	23,433	24,882	(1,449)
Gross margin	32,120	29,311	2,809
Operations & maintenance	14,872	15,533	(661)
Depreciation & amortization	4,920	3,984	936
Other taxes	1,823	2,007	(184)
Other operating expenses	21,615	21,524	91
Operating Income	<u>\$ 10,505</u>	<u>\$ 7,787</u>	<u>\$ 2,718</u>
<b>Weather and Customer Analysis</b>			
<b>Delmarva Peninsula</b>			
HDD:			
Actual	416	382	34
10-year average	476	487	(11)
Estimated gross margin per HDD	\$ 2,064	\$ 1,995	\$ 69
Per residential customer added:			
Estimated gross margin	\$ 375	\$ 375	\$ 0
Estimated other operating expenses	\$ 113	\$ 111	\$ 2
<b>Florida</b>			
HDD:			
Actual	12	14	(2)
10-year average	28	30	(2)
CDD:			
Actual	960	1,027	(67)
10-year average	914	894	20
<b>Residential Customer Information</b>			
Average number of customers:			
Delmarva natural gas distribution	49,445	48,660	785
Florida natural gas distribution	62,482	61,659	823
Florida electric distribution	23,670	23,593	77
Total	<u>135,597</u>	<u>133,912</u>	<u>1,685</u>

Operating income for the regulated energy segment increased by approximately \$2.7 million, or 35 percent, in the second quarter of 2012, compared to the same quarter in 2011. An increase in gross margin of \$2.8 million, partially offset by an increase in operating expenses of \$91,000, contributed to this increase.

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**Table of Contents****Gross Margin**

Gross margin for our regulated energy segment increased by \$2.8 million, or 10 percent, in the second quarter of 2012, compared to the same quarter in 2011.

Our Delmarva natural gas distribution operation experienced an increase in gross margin of \$332,000 in the second quarter of 2012, compared to the same quarter in 2011, due primarily to the following factors:

- Gross margin from commercial and industrial customers for the Delmarva natural gas distribution operation increased by \$313,000 in the second quarter of 2012, due primarily to the addition of 13 large commercial and industrial customers since the beginning of 2011.
- Two-percent growth in residential customers generated an additional \$78,000 in gross margin for the Delmarva natural gas distribution operation.

Gross margin for our Florida natural gas distribution operation increased by \$1.2 million in the second quarter of 2012, compared to the same quarter in 2011. The factors contributing to this increase were as follows:

- Customer growth, primarily in commercial and industrial customers, generated \$241,000 of additional gross margin.
- An increase in customer consumption of natural gas and an adjustment to accrued revenue generated \$1.2 million in additional gross margin.
- Partially offsetting these increases was \$148,000 in lower gross margin as a result of a decline in fees and service revenues and a change in certain customer rates.

Our natural gas transmission operations generated gross margin growth of \$1.4 million in the second quarter of 2012, compared to the same quarter in 2011. The factors contributing to this increase were as follows:

- In April 2012, Peninsula Pipeline, our Florida intrastate natural gas transmission subsidiary, initiated natural gas transmission service to support FPU's expansion of natural gas distribution service into Nassau County, Florida. The Florida PSC approved the firm transportation service agreement between Peninsula Pipeline and FPU for an annual charge of \$2.1 million. Peninsula Pipeline generated \$526,000 in gross margin from this new transmission service in the second quarter of 2012.
- Eastern Shore, our interstate natural gas transmission subsidiary, generated \$281,000 in additional gross margin as a result of two new transmission service agreements with an existing industrial customer; one for the period from May 2011 to April 2021 for an additional 3,405 Dts/d and the second for the period from November 2011 to October 2012 for an additional 9,514 Dts/d. These new services are the result of an expansion at this customer's industrial facility. The service associated with the 10-year transmission service agreement generated an additional \$28,000 of gross margin in the second quarter of 2012, compared to the second quarter of 2011. The service associated with the one-year transmission service agreement generated \$253,000 in the second quarter of 2012 and is expected to generate additional gross margin of \$336,000 over last year during the remainder of 2012.
- Other transmission services that commenced on various dates in November 2011 through June 2012, as a result of Eastern Shore's system expansion projects, generated additional gross margin of \$368,000. The new system expansion projects are primarily a result of the growth in our Delmarva natural gas distribution operation, with new services added in Lewes, Delaware, southern Delaware and Worcester County, Maryland. These expansions added 5,791 Dts/d of capacity and are expected to generate additional gross margin of \$807,000 during the remainder of 2012.
- On January 24, 2012, the FERC approved the rate case settlement for Eastern Shore. Implementation of the new rates, effective July 2011, pursuant to this rate case settlement, generated \$228,000 in additional gross margin in the second quarter of 2012, compared to the same quarter in 2011.

Gross margin for our Florida electric distribution operation decreased by \$77,000 in the second quarter of 2012, compared to the same quarter in 2011, due primarily to lower energy consumption by customers.

Table of ContentsOther Operating Expenses

Other operating expenses for the regulated energy segment increased by \$91,000 in the second quarter of 2012, compared to the same quarter in 2011, due largely to \$588,000 in increased amortization expense associated with the recovery of the FPU acquisition adjustment and merger-related costs and \$271,000 in higher depreciation expense and asset removal costs associated with capital investments made during 2011. Largely offsetting these increases were lower payroll and benefits cost of \$900,000, which was the result of one-time charges totaling \$481,000 in the second quarter of 2011, associated with the voluntary workforce reduction in Florida, and \$374,000 in ongoing costs resulting from this workforce reduction.

**Unregulated Energy**

<u>For the Three Months Ended June 30,</u> <i>(in thousands, except degree-day data)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Revenue	\$ 25,176	\$29,692	(\$ 4,516)
Cost of sales	<u>18,887</u>	<u>22,849</u>	<u>(3,962)</u>
Gross margin	6,289	6,843	(554)
Operations & maintenance	5,535	5,577	(42)
Depreciation & amortization	854	843	11
Other taxes	<u>301</u>	<u>343</u>	<u>(42)</u>
Other operating expenses	<u>6,690</u>	<u>6,763</u>	<u>(73)</u>
Operating Income	<u>(\$ 401)</u>	<u>\$ 80</u>	<u>(\$ 481)</u>
<b>Weather Analysis — Delmarva Peninsula</b>			
Actual HDD	416	382	34
10-year average HDD	476	487	(11)
Estimated gross margin per HDD	\$ 2,869	\$ 2,611	\$ 258

The unregulated energy segment reported an operating loss of \$401,000 in the second quarter of 2012, a decrease of \$481,000 compared to the same quarter in 2011. A decrease in gross margin of \$554,000 was partially offset by a decrease in other operating expenses of \$73,000.

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### Gross Margin

Gross margin for our unregulated energy segment decreased by \$554,000, or eight percent, in the second quarter of 2012, compared to the same quarter in 2011.

Our Delmarva propane distribution operation reported a decrease in gross margin of \$684,000 in the second quarter of 2012, compared to the same quarter in 2011. The factors contributing to this decrease were as follows:

- Lower retail margins per gallon decreased gross margin by \$581,000. The decrease in retail margins per gallon was attributable to a significant decline in wholesale propane prices during the second quarter, which resulted in a write-down of \$338,000 in the inventory value at June 30, 2012.
- A decrease in customer consumption, particularly by bulk-delivery customers, reduced gross margin by \$151,000. Weather, the timing of propane bulk deliveries, conservation and other factors contributed to this decline. Offsetting this decrease was \$31,000 in higher gross margin generated by wholesale volumes.

Gross margin for our Florida propane distribution operation increased by \$293,000 in the second quarter of 2012, compared to 2011. The factors contributing to this increase were as follows:

- Higher retail margins per gallon in Florida generated an additional gross margin of \$452,000 as the Florida propane distribution operation continued to adjust retail pricing in response to local market conditions.
- A decrease in customer consumption reduced gross margin by \$184,000. This decrease was partially offset by \$51,000 in additional gross margin generated from 1,180 customers acquired in late 2011 and early 2012, following the purchase of the operating assets of several small propane distribution companies.

Xeron, our propane wholesale marketing subsidiary, generated an increase in gross margin of \$100,000 in the second quarter of 2012, compared to the same quarter in 2011, as a result of higher margins in trading activity. Xeron executed trades with higher margins during the second quarter of 2012 as the market presented opportunities from the steady decline in wholesale propane prices.

Gross margin from PESCO, our natural gas marketing subsidiary, decreased by \$170,000 during the second quarter of 2012, compared to the same quarter in 2011. PESCO's gross margin in the second quarter of 2011 benefited from unusually large favorable imbalance resolutions with third-party intrastate pipelines, with which PESCO contracts for supply. The absence of such large imbalance resolutions in the second quarter of 2012 resulted in a quarter-over-quarter decrease in PESCO's gross margin. Imbalance resolutions are not predictable and, therefore, are not included in our long-term financial plans or forecasts.

Merchandise sales in Florida decreased in the second quarter of 2012, compared to the same quarter in 2011, resulting in lower gross margin of \$94,000, as we transition from a merchandise goods business to a services business.

### Other Operating Expenses

Other operating expenses for the unregulated energy segment were \$6.7 million for the second quarter of 2012, which is consistent with the same quarter in 2011.

**Table of Contents****Other**

<u>For the Three Months Ended June 30,</u> <i>(in thousands)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Revenue	<b>\$3,168</b>	\$ 2,946	\$ 222
Cost of sales	<b>974</b>	1,571	(597)
Gross margin	<b>2,194</b>	1,375	819
Operations & maintenance	<b>1,522</b>	1,183	339
Depreciation & amortization	<b>111</b>	110	1
Other taxes	<b>210</b>	173	37
Other operating expenses	<b>1,843</b>	1,466	377
Operating Income—Other	<b>351</b>	(91)	442
Operating Income—Eliminations (1)	—	—	—
Operating Income (Loss)	<b><u>\$ 351</u></b>	<b><u>(\$ 91)</u></b>	<b><u>\$ 442</u></b>

(1) Eliminations are entries required to eliminate activities between business segments from the consolidated results.

Operating income for the “other” segment increased by approximately \$442,000 in the second quarter of 2012, compared to the same quarter in 2011, which was attributable to a gross margin increase of \$819,000, partially offset by an operating expense increase of \$377,000.

**Gross margin**

Our “other” segment generated gross margin of \$2.2 million during the second quarter, compared to \$1.4 million for the same quarter of 2011, as a result of an increase of \$819,000 in BravePoint. \$139,000 of BravePoint’s increase represents higher margin from ProfitZoom™ and Application Evolution™ sales and related services. The remaining increase was generated from higher consulting revenues and other product sales.

**Other Operating Expenses**

Other operating expenses for our “other” segment increased by \$377,000 in the second quarter of 2012, compared to the same quarter in 2011. BravePoint accounted for \$394,000 of this increase as it added resources to support consulting and other service engagements.

**Interest Expense**

Total interest expense for the quarter ended June 30, 2012 increased by approximately \$127,000, or six percent, compared to the same quarter in 2011. The increase in interest expense is attributable primarily to an increase of \$275,000 related to the \$29 million long-term debt issuance of 5.68 percent unsecured senior notes on June 23, 2011. We used the proceeds from these notes to repay a portion of Chesapeake’s short-term loan credit facilities, which had been used to redeem two series of FPU first mortgage bonds. Partially offsetting this increase was a decrease of \$160,000 in other long-term interest expense as scheduled repayments decreased the outstanding principal balance.

On June 22, 2012, we entered into a new, unsecured short-term credit facility for \$40 million with an existing lender for working capital needs, capital expenditures and general corporate purposes. Short-term borrowings under this new facility bear interest at LIBOR plus 80 basis points or, at our discretion, the lender’s base rate (as defined in the term note agreement) plus 80 basis points. This facility, which is structured in the form of a revolving credit note, matures on June 1, 2013. No interest was incurred on this facility as of June 30, 2012.

**Income Taxes**

Income tax expense was \$3.3 million in the second quarter of 2012, compared to \$2.2 million in the same quarter in 2011. The increase in income tax expense was due to higher taxable income. Our effective income tax rate was 39.5 percent and 38.1 percent for the second quarter of 2012 and 2011, respectively.

Table of Contents**Results of Operations for the Six Months Ended June 30, 2012****Overview and Highlights**

Our net income for the six months ended June 30, 2012 was \$15.8 million, or \$1.63 per share (diluted). This represents a decrease of \$1.5 million, or \$0.16 per share (diluted), compared to a net income of \$17.3 million, or \$1.79 per share (diluted), as reported for the same period in 2011.

<u>For the Six Months Ended June 30,</u> <i>(in thousands except per share)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
<b>Business Segment:</b>			
Regulated Energy	\$25,303	\$24,020	\$ 1,283
Unregulated Energy	4,753	8,669	(3,916)
Other	472	(74)	546
<b>Operating Income</b>	<u>30,528</u>	<u>32,615</u>	<u>(2,087)</u>
Other Income	349	50	299
Interest Charges	4,532	4,265	267
Income Taxes	10,558	11,133	(575)
<b>Net Income</b>	<u>\$15,787</u>	<u>\$17,267</u>	<u>(\$ 1,480)</u>
<b>Earnings Per Share of Common Stock</b>			
Basic	\$ 1.65	\$ 1.81	(\$ 0.16)
Diluted	<u>\$ 1.63</u>	<u>\$ 1.79</u>	<u>(\$ 0.16)</u>

Highlights of our results in the first six months of 2012 included:

- Lower customer energy consumption directly attributable to warmer weather reduced gross margin by \$3.9 million.
- New natural gas transmission services generated \$1.7 million in additional gross margin.
- Growth from new natural gas distribution customers generated \$1.3 million in additional gross margin.
- Amortization related to the recovery of the FPU acquisition adjustment and merger-related costs increased other operating expenses by \$1.2 million.
- Other items affecting our period-over-period results included:
  - An increase in BravePoint's operating income of \$528,000, approximately nine percent of which was a result of ProfitZoom™ and Application Evolution™ sales and related services and the remaining of which was due to higher consulting revenues and other product sales.
  - A decrease in Xeron's gross margin of \$435,000 as a result of a 37-percent decrease in trading activity; and
  - Two non-recurring items, which impacted the first six months of 2011: severance and pension settlement charges totaling \$787,000, partially offset by a \$575,000 gain for the proceeds received from an antitrust litigation settlement with a major propane supplier.

The following section also provides a more detailed analysis of our results by segment.

**Table of Contents****Regulated Energy**

<b>For the Six Months Ended June 30,</b> <i>(in thousands, except degree-day and customer information)</i>	<b>2012</b>	<b>2011</b>	<b>Increase (decrease)</b>
Revenue	<b>\$127,849</b>	\$139,063	(\$ 11,214)
Cost of sales	<b>59,105</b>	72,872	(13,767)
Gross margin	<b>68,744</b>	66,191	2,553
Operations & maintenance	<b>29,726</b>	29,826	(100)
Depreciation & amortization	<b>9,730</b>	8,115	1,615
Other taxes	<b>3,985</b>	4,230	(245)
Other operating expenses	<b>43,441</b>	42,171	1,270
Operating Income	<b>\$ 25,303</b>	\$ 24,020	\$ 1,283
<b>Weather and Customer Analysis</b>			
<b>Delmarva Peninsula</b>			
HDD:			
Actual	<b>2,296</b>	2,827	(531)
10-year average	<b>2,852</b>	2,863	(11)
Estimated gross margin per HDD	<b>\$ 2,064</b>	\$ 1,995	\$ 69
Per residential customer added:			
Estimated gross margin	<b>\$ 375</b>	\$ 375	\$ 0
Estimated other operating expenses	<b>\$ 113</b>	\$ 111	\$ 2
<b>Florida</b>			
HDD:			
Actual	<b>347</b>	534	(187)
10-year average	<b>587</b>	594	(7)
CDD:			
Actual	<b>1,144</b>	1,107	37
10-year average	<b>980</b>	961	19
<b>Residential Customer Information</b>			
Average number of customers:			
Delmarva natural gas distribution	<b>49,809</b>	48,986	823
Florida natural gas distribution	<b>62,368</b>	61,603	765
Florida electric distribution	<b>23,643</b>	23,591	52
Total	<b>135,820</b>	134,180	1,640

Operating income for the regulated energy segment increased by approximately \$1.3 million, or five percent, in the first six months of 2012, compared to the same period in 2011. The increase in operating income reflected an increase in gross margin of \$2.6 million partially offset by an increase in operating expenses of \$1.3 million.

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### Gross Margin

Gross margin for our regulated energy segment increased by \$2.6 million, or four percent, in the first six months of 2012, compared to the same period in 2011.

Our Delmarva natural gas distribution operation experienced a decrease in gross margin of \$255,000 in the first six months of 2012, compared to the same period in 2011. The factors contributing to this decrease were as follows:

- Lower customer consumption, due primarily to warmer weather on the Delmarva Peninsula during the first half of 2012, compared to the same period in 2011, decreased gross margin by \$1.3 million. HDD decreased by 531, or 19 percent, on the Delmarva Peninsula during the first half of 2012, compared to the same period in 2011.
- Net customer growth by the Delmarva natural gas distribution operation generated \$892,000 in additional gross margin. Gross margin from commercial and industrial customers for the Delmarva natural gas distribution operation increased by \$673,000 in the first six months of 2012, due primarily to the addition of 13 large commercial and industrial customers since the beginning of 2011. Two-percent growth in residential customers generated an additional \$219,000 in gross margin for the Delmarva natural gas distribution operation.

Gross margin for our Florida natural gas distribution operation increased by \$752,000 in the first six months of 2012, compared to the same period in 2011. The factors contributing to this increase were as follows:

- Customer growth, primarily in commercial and industrial customers, generated \$362,000 of additional gross margin.
- Higher customer energy consumption during the first six months of 2012, compared to the same period in 2011, increased gross margin by \$677,000, due primarily to an increase in non-weather-related consumptions by residential customers, coupled with an adjustment to unbilled revenue, which generated additional gross margin of \$585,000.
- These increases were partially offset by decreases in fees and miscellaneous revenues.

Our natural gas transmission operations achieved gross margin growth of \$2.4 million in the first six months of 2012, compared to the same period in 2011. The factors contributing to this increase were as follows:

- Eastern Shore generated \$624,000 in additional gross margin as a result of two new transmission service agreements with an existing industrial customer; one for the period from May 2011 to April 2021 for an additional 3,405 Dts/d and the second for the period from November 2011 to October 2012 for an additional 9,514 Dts/d. These new services are the result of an expansion at this customer's industrial facility. The service associated with the 10-year transmission service agreement generated \$120,000 of additional gross margin for the first six months of 2012. The service associated with the one-year transmission service agreement generated \$504,000 in the first six months of 2012 and is expected to generate additional gross margin of \$336,000 over last year during the remainder of 2012.
- Also generating additional gross margin of \$617,000 were other transmission services that commenced on various dates in November 2011 through June 2012, as a result of Eastern Shore's system expansion projects. The new system expansion projects are primarily a result of the growth in our Delmarva natural gas distribution operation with new services added in Lewes, Delaware, southern Delaware and Worcester County, Maryland. These expansions added 5,791 Dts/d of capacity and are expected to generate additional gross margin of \$807,000 during the remainder of 2012.
- In April 2012, Peninsula Pipeline initiated natural gas transmission service to support FPU's expansion of natural gas distribution service into Nassau County, Florida. The Florida PSC approved the firm transportation service agreement between Peninsula Pipeline and FPU for an annual charge of \$2.1 million. Peninsula Pipeline generated \$526,000 in gross margin from this new transmission service for the first six months of 2012.
- On January 24, 2012, the FERC approved the rate case settlement for Eastern Shore. Implementation of the new rates, effective July 2011, pursuant to this rate case settlement, generated \$477,000 in additional gross margin in the first six months of 2012, compared to the same period in 2011.



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Gross margin for our Florida electric distribution operation decreased by \$326,000 in the first six months of 2012, compared to the same period in 2011, due primarily to lower energy consumption by customers as a result of warmer weather during the heating season.

**Other Operating Expenses**

Other operating expenses for the regulated energy segment increased by \$1.3 million for the first six months of 2012 due largely to: (i) \$1.2 million in increased amortization expense associated with the recovery of the FPU acquisition adjustment and merger-related costs, (ii) \$408,000 in higher depreciation expense and asset removal costs associated with capital investments, (iii) \$380,000 in increased maintenance costs related to the electric distribution systems; and (iv) \$220,000 in higher legal costs associated with an electric franchise dispute. These increases in expense were partially offset by one-time charges in the first six months of 2011 totaling \$664,000, associated with the voluntary workforce reduction in Florida and a pension settlement, and \$774,000 in reduced payroll and benefits, mainly in Florida, resulting from the reduction in workforce.

**Unregulated Energy**

<u>For the Six Months Ended June 30,</u> <i>(in thousands, except degree-day data)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Revenue	\$70,063	\$88,442	(\$ 18,379)
Cost of sales	51,612	65,604	(13,992)
Gross margin	18,451	22,838	(4,387)
Operations & maintenance	11,218	11,694	(476)
Depreciation & amortization	1,692	1,634	58
Other taxes	788	841	(53)
Other operating expenses	13,698	14,169	(471)
Operating Income	<u>\$ 4,753</u>	<u>\$ 8,669</u>	<u>(\$ 3,916)</u>
<b>Weather Analysis — Delmarva Peninsula</b>			
Actual HDD	2,296	2,827	(531)
10-year average HDD	2,852	2,863	(11)
Estimated gross margin per HDD	\$ 2,869	\$ 2,611	\$ 258

The unregulated energy segment reported operating income of \$4.8 million in the first six months of 2012, a decrease of \$3.9 million, or 45 percent, compared to the same period in 2011. A decrease in gross margin of \$4.4 million was partially offset by a decrease in other operating expenses of \$471,000.

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### Gross Margin

Gross margin for our unregulated energy segment decreased by \$4.4 million, or 19 percent, in the first six months of 2012, compared to the same period in 2011.

Our Delmarva propane distribution operation reported a decrease in gross margin of \$3.9 million in the first six months of 2012, compared to the same period in 2011. The factors contributing to this decrease were as follows:

- Significantly warmer weather resulted in decreased gross margin of \$2.6 million during the first six months of 2012, compared to the same period in 2011. Propane sales to bulk-delivery customers declined beyond the estimated weather impact due to the timing of deliveries, conservation and other factors, which further reduced gross margin by \$172,000. Lower wholesale propane volumes also decreased gross margin by \$104,000.
- Lower retail margins per gallon during the first six months of 2012, compared to the same period in 2011, decreased gross margin by \$608,000. This decrease in retail margins per gallon was attributable to a significant decline in wholesale propane prices during 2012, which resulted in a write-down of \$465,000 in the inventory value during the first six months of 2012.
- \$575,000 of a non-recurring gain was recorded in 2011 related to our share of proceeds received from an antitrust litigation settlement with a major propane supplier and is reflected as a period-over-period decrease in gross margin.

The gross margin generated by our Florida propane distribution operation increased by \$269,000 in the first six months of 2012, compared to the same period in 2011. The factors contributing to this increase were as follows:

- Higher retail margins per gallon in Florida generated an additional gross margin of \$1.1 million as the Florida propane distribution operation continued to adjust retail pricing in response to local market conditions.
- A decrease in customer consumption reduced gross margin by \$839,000. This decrease was partially offset by \$186,000 in additional gross margin generated from 1,180 customers acquired in late 2011 and early 2012, following the purchase of the operating assets of several small propane distribution companies.

Xeron's gross margin decreased by \$435,000 in the first six months of 2012, compared to the same period in 2011, as a result of a 37-percent decrease in trading activity. High price volatility in the wholesale propane market during the first six months of 2011 resulted in higher-than-usual trading volume and profitability for Xeron. Lower price volatility during the first six months of 2012, coupled with lower wholesale propane demand, due partially to warmer weather, reduced Xeron's trading volume and gross margin in the first half of 2012.

Gross margin from PESCO decreased by \$157,000 during the first six months of 2012, compared to the same period in 2011. PESCO's gross margin in the first six months of 2011 benefited from unusually large favorable imbalance resolutions with third-party intrastate pipelines, with which PESCO contracts for supply. The absence of such large imbalance resolutions in 2012 resulted in a decrease in PESCO's gross margin. Imbalance resolutions are not predictable and, therefore, are not included in our long-term financial plans or forecasts.

Merchandise sales in Florida decreased in the first six months of 2012, compared to the same period in 2011, resulting in lower gross margin of \$183,000, as we transition from a merchandise goods business to a services business.

### Other Operating Expenses

Other operating expenses for the unregulated energy segment decreased by \$471,000 in the first six months of 2012, compared to the same period in 2011, due largely to decreased incentive compensation of \$487,000 resulting from lower operating results and vacant positions, and lower payroll and benefit costs of \$205,000 related to reduced seasonal, temporary and overtime costs in our Delmarva propane distribution operation. These decreases were partially offset by increased payroll and benefit costs of \$183,000 in the Florida propane operation resulting from resources added to serve new territories.

Table of Contents**Other**

<u>For the Six Months Ended June 30,</u> <i>(in thousands)</i>	<u>2012</u>	<u>2011</u>	<u>Increase (decrease)</u>
Revenue	<b>\$6,899</b>	\$ 5,924	\$ 975
Cost of sales	<b>2,841</b>	3,107	(266)
Gross margin	<b>4,058</b>	2,817	1,241
Operations & maintenance	<b>2,917</b>	2,312	605
Depreciation & amortization	<b>224</b>	209	15
Other taxes	<b>445</b>	370	75
Other operating expenses	<b>3,586</b>	2,891	695
Operating Income—Other	<b>472</b>	(74)	546
Operating Income—Eliminations (1)	<b>—</b>	—	—
Operating Income (Loss)	<b>\$ 472</b>	(\$ 74)	\$ 546

(1) Eliminations are entries required to eliminate activities between business segments from the consolidated results.

Operating income for the “other” segment increased by approximately \$546,000 in the first six months of 2012, compared to the same period in 2011, which was attributable to a gross margin increase of \$1.2 million, partially offset by an operating expense increase of \$695,000.

Gross margin

Our “other” segment generated gross margin of \$4.1 million during the first six months of 2012, compared to \$2.8 million for the same period of 2011, as a result of an increase of \$1.3 million in BravePoint. \$276,000 of BravePoint’s increase represents higher margin from ProfitZoom™ and Application Evolution™ sales and related services. The remaining increase was generated from higher consulting revenues and other product sales.

Other Operating expenses

Other operating expenses for our “other” segment increased by \$695,000 in the first six months of 2012, compared to the same period in 2011. BravePoint accounted for \$728,000 of this increase as it added resources to support consulting and other service engagements.

**Interest Expense**

Total interest expense for the six months ended June 30, 2012 increased by approximately \$267,000, or six percent, compared to the same period in 2011. The increase in interest expense is attributable primarily to an increase of \$573,000 related to the \$29 million long-term debt issuance of 5.68 percent unsecured senior notes on June 23, 2011. We used the proceeds from these notes to repay a portion of Chesapeake’s short-term loan credit facilities, which had been used to redeem two series of FPU first mortgage bonds. Partially offsetting this increase was a decrease of \$329,000 in other long-term interest expense as scheduled repayments decreased the outstanding principal balance.

On June 22, 2012, we entered into a new, unsecured short-term credit facility for \$40 million with an existing lender to temporarily finance working capital needs, capital expenditures and general corporate purposes. Short-term borrowings under this new facility bear interest at LIBOR plus 80 basis points or, at our discretion, the lender’s base rate plus 80 basis points. This facility, which is structured in the form of a revolving credit note, matures on June 1, 2013. No interest was incurred on this facility as of June 30, 2012.

**Income Taxes**

Income tax expense was \$10.6 million in the first six months of 2012, compared to \$11.1 million in the same period in 2011. The decrease in income tax expense was due to lower taxable income. Our effective income tax rate was 40.1 percent and 39.2 percent for the first six months of 2012 and 2011, respectively.

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### FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Our capital requirements reflect the capital-intensive and seasonal nature of our business and are principally attributable to investment in new plant and equipment, retirement of outstanding debt and seasonal variability in working capital. We rely on cash generated from operations, short-term borrowings, and other sources to meet normal working capital requirements and to finance capital expenditures.

Our energy businesses are weather-sensitive and seasonal. We normally generate a large portion of our 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, electricity, and propane delivered by our natural gas, electric, 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.

We originally budgeted \$88.5 million for capital expenditures during 2012. As a result of continued growth, expansion opportunities and the timing of capital projects, we increased our capital spending projection for 2012 to \$90.8 million. This amount includes \$77.7 million for the regulated energy segment, \$3.6 million for the unregulated energy segment and \$9.5 million for the "Other" segment. The amount for the regulated energy segment includes estimated capital expenditures for the following: natural gas distribution operations (\$28.2 million), natural gas transmission operations (\$42.8 million) and electric distribution operation (\$6.7 million) for expansion and improvement of facilities. The amount for the unregulated energy segment includes estimated capital expenditures for the propane distribution operations for customer growth and replacement of equipment. The amount for the "Other" segment includes estimated capital expenditures of \$533,000 for the advanced information services subsidiary with the remaining balance for improvements of various offices and operations centers, other general plant, computer software and hardware. We expect to fund the 2012 capital expenditures program from short-term borrowings, cash provided by operating activities, and other sources. The capital expenditures 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.

We recently announced an agreement with ESG to purchase the propane distribution assets to serve approximately 11,000 customers through underground propane gas distribution systems and over 500 bulk propane delivery customers in Worcester County, Maryland. We expect to finance the purchase of these assets using unsecured short-term debt.

### Capital Structure

We are 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 our regulated operations, is intended to ensure our ability to attract capital from outside sources at a reasonable cost. We believe that the achievement of these objectives will provide benefits to our customers, creditors and investors. The following presents our capitalization, excluding and including short-term borrowings, as of June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
<i>(in thousands)</i>				
Long-term debt, net of current maturities	\$108,755	30%	\$ 110,285	31%
Stockholders' equity	250,407	70%	240,780	69%
Total capitalization, excluding short-term debt	<u>\$359,162</u>	<u>100%</u>	<u>\$ 351,065</u>	<u>100%</u>
	June 30, 2012		December 31, 2011	
<i>(in thousands)</i>				
Short-term debt	\$ 13,553	4%	\$ 34,707	9%
Long-term debt, including current maturities	116,951	31%	118,481	30%
Stockholders' equity	250,407	65%	240,780	61%
Total capitalization, including short-term debt	<u>\$380,911</u>	<u>100%</u>	<u>\$ 393,968</u>	<u>100%</u>

Table of Contents**Short-term Borrowings**

Our outstanding short-term borrowings at June 30, 2012 and December 31, 2011 were \$13.6 million and \$34.7 million, respectively, at weighted average interest rates of 1.51 percent and 1.57 percent, respectively.

We utilize bank lines of credit to provide funds for our short-term cash needs to meet seasonal working capital requirements and to fund temporarily portions of the capital expenditure program. As of June 30, 2012, we had four unsecured bank lines of credit with two financial institutions for a total of \$100.0 million. Two of these unsecured bank lines, totaling \$60.0 million, are available under committed lines of credit. None of these unsecured bank lines of credit requires compensating balances. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks. Our outstanding borrowings under these unsecured bank lines of credit at June 30, 2012 and December 31, 2011 were \$11.5 million and \$30.5 million, respectively, at weighted average interest rates of 1.51 percent and 1.57 percent, respectively.

In addition to the four unsecured bank lines of credit, we entered into a new, unsecured short-term credit facility for \$40 million with an existing lender on June 22, 2012. Short-term borrowings under this new facility bear interest at LIBOR plus 80 basis points or, at our discretion, the lender's base rate plus 80 basis points. This facility, which is structured in the form of a revolving credit note, matures on June 1, 2013. Our total short-term borrowing capacity available under this facility at June 30, 2012 was \$40 million.

We are currently authorized by our Board of Directors to borrow up to \$85.0 million of short-term debt in the aggregate, as required, from our bank lines of credit.

**Cash Flows Provided By Operating Activities**

Cash flows provided by operating activities were as follows:

<u>For the Six Months Ended June 30,</u> <i>(in thousands)</i>	<u>2012</u>	<u>2011</u>
Net Income	<b>\$15,787</b>	\$17,267
Non-cash adjustments to net income	<b>23,649</b>	26,131
Changes in assets and liabilities	<b>21,077</b>	16,691
<b>Net cash provided by operating activities</b>	<b><u>\$60,513</u></b>	<b><u>\$60,089</u></b>

During the six months ended June 30, 2012 and 2011, net cash flow provided by operating activities was \$60.5 million and \$60.1 million, respectively, a period-over-period increase of \$424,000. Significant operating activities reflected in the change in cash flows provided by operating activities were as follows:

- Net income decreased by \$1.5 million for the first six months of 2012 compared to the same period in 2011.
- Net cash flows from changes in propane and natural gas inventories increased by approximately \$2.1 million as a result of lower commodity prices.
- Net cash flows from depreciation and amortization increased by approximately \$1.9 million, due primarily to increased capital investments and increased amortization expense associated with the recovery of the FPU acquisition adjustment and merger related costs.
- Net cash flows from the changes in regulatory assets and liabilities decreased by approximately \$6.4 million, due primarily to a reduction in fuel costs due and collected from rate payers and a refund of \$1.3 million to customers by Eastern Shore as a result of its rate case settlement in January 2012.
- Net cash flows from changes in accounts receivable and accounts payable increased by approximately \$4.7 million, due primarily to collections and payments from our natural gas, electric and propane distribution operations. In addition, the timing of trading contracts entered into by our propane wholesale and marketing operation contributed to the changes in accounts receivable and accounts payable.

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**Table of Contents****Cash Flows Used in Investing Activities**

Net cash flows used in investing activities totaled \$32.2 million and \$21.4 million during the six months ended June 30, 2012 and 2011, respectively. Cash utilized for capital expenditures was \$34.1 million and \$21.2 million for the first six months of 2012 and 2011, respectively.

**Cash Flows Used by Financing Activities**

Cash flows used in financing activities totaled \$29.2 million and \$38.5 million for the first six months of 2012 and 2011, respectively. Significant financing activities reflected in the change in cash flows used by financing activities were as follows:

- During the first six months of 2012, we had a net repayment of \$19.0 million under our line of credit agreements related to working capital, compared to \$27.4 million during the same period in 2011. This resulted in a period-over-period net cash increase of \$8.4 million. Changes in cash overdrafts increased by \$1.0 million, resulting in a period-over-period net cash increase.
- Net repayment of long-term debt during the first six months of 2012 was \$1.4 million, compared to net repayments of long-term debt and other short-term borrowing of \$1.6 million in the same period in 2011. During the first six months of 2011, we issued Chesapeake's unsecured senior notes, using the proceeds to repay a short-term credit facility and permanently finance the FPU bonds.
- We paid \$6.0 million and \$5.7 million in cash dividends for the six months ended June 30, 2012 and 2011, respectively.

**Off-Balance Sheet Arrangements**

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily the propane wholesale marketing subsidiary and the natural gas marketing 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 our financial statements when incurred. The aggregate amount guaranteed at June 30, 2012 was \$27.7 million, with the guarantees expiring on various dates through June 2013.

In addition to the corporate guarantees, we have issued a letter of credit for \$1.0 million, which expires on September 12, 2012, related to the electric transmission services for FPU's northwest electric division. We have also issued a letter of credit to our current primary insurance company for \$656,000, which expires on December 2, 2012, as security to satisfy the deductibles under our various insurance policies. Although we changed our primary insurance company, we still have an outstanding letter of credit for \$725,000 to our former primary insurance company, which will expire on June 1, 2013. There have been no draws on these letters of credit as of June 30, 2012. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that the letters of credit will be renewed to the extent necessary in the future.

We provided a letter of credit for \$2.5 million under the Precedent Agreement, which is the maximum amount required under the agreement.

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### Contractual Obligations

There has not been any material change in the contractual obligations presented in our 2011 Annual Report on Form 10-K, as amended, except for commodity purchase obligations and forward contracts entered into in the ordinary course of our business. The following table summarizes the commodity and forward contract obligations at June 30, 2012.

<u>Purchase Obligations</u> <i>(in thousands)</i>	<u>Payments Due by Period</u>				<u>Total</u>
	<u>Less than 1 year</u>	<u>1 - 3 years</u>	<u>3 - 5 years</u>	<u>More than 5 years</u>	
Commodities <sup>(1)</sup>	\$ 13,850	\$ 467	\$ —	\$ —	<b>\$14,317</b>
Propane <sup>(2)</sup>	15,897	—	—	—	<b>15,897</b>
<b>Total Purchase Obligations</b>	<b>\$ 29,747</b>	<b>\$ 467</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$30,214</b>

- (1) In addition to the obligations noted above, the natural gas, electric and propane distribution operations have agreements with commodity suppliers that have provisions with no minimum purchase requirements. 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 we do not purchase specified amounts during the summer season. Under these contracts, the commodity prices will fluctuate as market prices fluctuate.
- (2) We have also entered into forward sale contracts in the aggregate amount of \$5.1 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 5, "Environmental Commitments and Contingencies," to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, we continue to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at seven environmental sites. We believe 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

Our natural gas distribution operations in Delaware, Maryland and Florida and electric distribution operation in Florida are subject to regulation by their respective PSC's; Eastern Shore is subject to regulation by the FERC; and Peninsula Pipeline is subject to regulation by the Florida PSC. At June 30, 2012, we were involved in rate filings and/or regulatory matters in each of the jurisdictions in which we operate. Each of these rate filings and/or regulatory matters is fully described in Note 4, "Rates and Other Regulatory Activities," to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

#### Competition

Our natural gas and electric distribution operations and our natural gas transmission operation compete with other forms of energy, including natural gas, electricity, oil, propane and other alternative sources of energy. The principal competitive factors are price and, to a lesser extent, accessibility. Our natural gas distribution operations have several large-volume industrial customers that are able 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, and our interruptible sales volumes may decline. Oil prices, as well as the prices of other fuels, fluctuate for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, we use 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 natural gas transmission operation's conversion to open access and Chesapeake's Florida natural gas distribution division's restructuring of its services, these businesses have shifted from providing bundled transportation and sales service to providing only transmission and contract storage services. Our electric distribution operation currently does not face substantial competition because the electric utility industry in Florida has not been deregulated. In addition, natural gas is the only viable alternative fuel to electricity in our electric service territories and is available only in a small area.

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Our natural gas distribution operations in Delaware, Maryland and Florida offer unbundled transportation services to certain commercial and industrial customers. In 2002, Chesapeake's Florida natural gas distribution division, Central Florida Gas, extended such service to residential customers. With such transportation service available on our distribution systems, we are competing with third-party suppliers to sell gas to industrial customers. With respect to unbundled transportation services, our 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 our existing distribution operations in this manner. In certain situations, our distribution operations may adjust services and rates for these customers to retain their business. We expect to continue to expand the availability of unbundled transportation service to additional classes of distribution customers in the future. We have also established a natural gas marketing operation in Florida, Delaware and Maryland to provide such service to customers eligible for unbundled transportation services.

Our 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.

Our advanced information services subsidiary faces significant competition from a number of larger competitors having substantially greater resources available to them than does our subsidiary. 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 regulated natural gas and electric distribution operations, fluctuations in natural gas and electricity prices are passed on to customers through the fuel cost recovery mechanism in our tariffs. To help cope with the effects of inflation on our capital investments and returns, we seek rate increases from regulatory commissions for our regulated operations and closely monitor the returns of our unregulated business operations. To compensate for fluctuations in propane gas prices, we adjust propane selling prices to the extent allowed by the market.

**Recent Authoritative Pronouncements on Financial Reporting and Accounting**

Recent accounting developments applicable to us and their impact on our financial position, results of operations and cash flows are described in Note 1, "Summary of Accounting Policies," to the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

**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. Our long-term debt consists of fixed-rate senior notes, secured debt and convertible debentures. All of our 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 \$117.0 million at June 30, 2012, as compared to a fair value of \$140.2 million, 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, credit risk, and risk profile. We evaluate whether to refinance existing debt or permanently refinance existing short-term borrowing, based in part on the fluctuation in interest rates.



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Our propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. We can store up to approximately 5.4 million gallons of propane (including leased storage and rail cars) during the winter season to meet our 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, we have adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges or other economic hedges of our inventory.

In May 2012, our propane distribution operation entered into call options to protect against an increase in propane prices associated with 1,260,000 gallons purchased for the propane price cap program in December 2012 through March 2013. The call options are exercised if the propane prices rise above the strike prices, which range from \$0.905 per gallon to \$0.99 per gallon during this four-month period. We will receive the difference between the market price and the strike price during those months. We paid \$139,000 to purchase the call options, and we accounted for the call options as a fair value hedge. As of June 30, 2012, the call options had a fair value of \$123,000. There has been no ineffective portion of this fair value hedge thus far in 2012.

In August 2011, our propane distribution operation entered into a put option to protect against the decline in propane prices and related potential inventory losses associated with 630,000 gallons purchased for the propane price cap program in the upcoming heating season. This put option was exercised as the propane prices fell below the strike price of \$1.445 per gallon in January through March of 2012. We received \$118,000, representing the difference between the market price and the strike price during those months. We had paid \$91,000 to purchase the put option, and we accounted for it as a fair value hedge.

Our 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 us or the counter-party or by "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 our 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 daily by our oversight officials. 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 June 30, 2012 is presented in the following tables.

<u>At June 30, 2012</u>	<u>Quantity in Gallons</u>	<u>Estimated Market Prices</u>	<u>Weighted Average Contract Prices</u>
<b>Forward Contracts</b>			
Sale	5,754,000	\$0.7200 — \$1.3775	\$ 0.8933
Purchase	5,670,000	\$0.6825 — \$1.3300	\$ 0.8724

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

*All contracts expire by the first quarter of 2013.*

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At June 30, 2012 and December 31, 2011, we marked these forward and other contracts to market, using market transactions in either the listed or OTC markets, which resulted in the following assets and liabilities:

<i>(in thousands)</i>	<b>June 30, 2012</b>	<b>December 31, 2011</b>
Mark-to-market energy assets, including put/call option	<b>\$ 585</b>	<b>\$ 1,754</b>
Mark-to-market energy liabilities	<b>\$ 504</b>	<b>\$ 1,496</b>

**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 our “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, 2012. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2012.

**Changes in Internal Control over Financial Reporting**

During the quarter ended June 30, 2012, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II — OTHER INFORMATION****Item 1. Legal Proceedings**

As disclosed in Note 6, “Other Commitments and Contingencies,” of the unaudited condensed consolidated financial statements in this Quarterly Report on Form 10-Q, we are involved in certain legal actions and claims arising in the normal course of business. We are also involved in certain legal and administrative proceedings before various governmental or regulatory agencies concerning rates and other regulatory actions. In the opinion of management, the ultimate disposition of these proceedings and claims will not have a material effect on our condensed consolidated financial position, results of operations or cash flows.

**Item 1A. Risk Factors**

Our business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2011, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings with the SEC in connection with evaluating the Company, our business and the forward-looking statements contained in this Report. Additional risks and uncertainties not known to us at present, or that we currently deem immaterial also may affect the Company. The occurrence of any of these known or unknown risks could have a material adverse impact on our business, financial condition, and results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup></u>	<u>Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup></u>
April 1, 2012 through April 30, 2012 <sup>(1)</sup>	259	\$ 40.89	—	—
May 1, 2012 through May 31, 2012	—	\$ —	—	—
June 1, 2012 through June 30, 2012	—	\$ —	—	—
<b>Total</b>	<u>259</u>	<u>\$ 40.89</u>	<u>—</u>	<u>—</u>

<sup>(1)</sup> 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 Directors and Senior Executives under the Deferred Compensation Plan. The Deferred Compensation Plan is discussed in detail in Item 8 under the heading “Notes to the Consolidated Financial Statements - Note M, Employee Benefit Plans” in our latest Annual Report on Form 10-K for the year ended December 31, 2011, as amended. During the quarter, 259 shares were purchased through the reinvestment of dividends on deferred stock units.

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

**Item 3. Defaults upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

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**Table of Contents****Item 5. Other Information**

None.

**Item 6. Exhibits**

- 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 8, 2012.
- 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 8, 2012.
- 32.1 Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 8, 2012.
- 32.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated August 8, 2012.
- 101.INS\* XBRL Instance Document.
- 101.SCH\* XBRL Taxonomy Extension Schema Document.
- 101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB\* XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.

\* XBRL (Extensible Business Reporting Language) information is furnished and not filed for purposes of Section 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934. In accordance with Rule 406T of Regulation S-T, the XBRL information in Exhibit 101 of this Form 10-Q shall not be subject to the liability of Section 18 of the Securities Exchange Act of 1934 and shall not be part of any registration statement or other document filed under the Securities Act of 1933 or the Securities Exchange Act of 1934, except as shall be expressly set forth in specific reference in such filing.

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**Table of Contents****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/ BETH W. COOPER

Beth W. Cooper  
Senior Vice President and Chief Financial Officer

Date: August 8, 2012

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As filed with the Securities and Exchange Commission on December 21, 2011

Registration No. 333-

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

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**CHESAPEAKE UTILITIES CORPORATION**

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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**Delaware**  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

**51-0064146**  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

**909 SILVER LAKE BOULEVARD  
DOVER, DELAWARE 19904  
(302) 734-6799**

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

---

**BETH W. COOPER  
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER  
CHESAPEAKE UTILITIES CORPORATION  
909 SILVER LAKE BOULEVARD  
DOVER, DELAWARE 19904  
(302) 734-6799**

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: Sales are expected to take place from time to time after this Registration Statement becomes effective.

If the only securities being registered on the Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

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If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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**CALCULATION OF REGISTRATION FEE (1)**

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$0.4867 per share (2)	546,343 shares (3)	\$42.79 (4)	\$23,378,016.97	\$2,679.12

- (1) Includes a preferred stock purchase right (collectively, the "Rights") associated with each share of the common stock issued pursuant to the Rights Agreement, dated as of August 20, 1999, as amended on September 12, 2008 (the "Rights Agreement"), between the Registrant and Computershare Trust Company, N.A., a federally chartered trust company, as successor rights agent to BankBoston, N.A. (formerly known as EquiServe Trust Company). Until the occurrence of certain events specified in the Rights Agreement, none of which have occurred, the Rights are not exercisable, are evidenced by the certificate for the common stock and will be transferred along with and only with the common stock.
- (2) Pursuant to Rule 429 under the Securities Act of 1933, as amended, the Prospectus contained herein also relates to and will be used in connection with the offer and sale of securities covered by Registration Statement No. 333-156192, filed by the Registrant on December 16, 2008. A total of 546,343 shares of common stock are being carried forward from the prior registration statement on which filing fees of \$798.59 were paid.
- (3) Pursuant to Rule 416(a) under the Securities Act of 1933, as amended, the number of shares registered includes such additional number of shares of common stock as are required to prevent dilution resulting from any stock split, stock dividend, recapitalization or similar transaction effected without the receipt of consideration that results in an increase in the number of outstanding shares of common stock.
- (4) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) based on the average of the high and low prices as reported by the New York Stock Exchange on December 20, 2011.

The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**Table of Contents****PROSPECTUS**

SUBJECT TO COMPLETION, DATED  
DECEMBER 21, 2011

**CHESAPEAKE**

**DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN**

**546,343 SHARES OF COMMON STOCK**  
**(PAR VALUE \$0.4867 PER SHARE)**

This Prospectus relates to shares of common stock, par value \$0.4867 per share of Chesapeake Utilities Corporation, a Delaware corporation ("Chesapeake" or the "Corporation"), which may be offered and sold from time to time pursuant to the terms of Chesapeake's Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"). Chesapeake common stock is traded on the New York Stock Exchange under the symbol "CPK."

The material provisions of the Plan are set forth in this Prospectus in a question and answer format. References hereinafter to "common stock" are to Chesapeake common stock and references to a "stockholder" are to individuals or entities that hold Chesapeake common stock. The term "new investor" refers to an individual or entity who is not a stockholder of Chesapeake common stock immediately prior to becoming a participant in the Plan.

The Plan has two components:

- a Dividend Reinvestment component which permits Plan participants to elect to invest all or a portion of the dividends on their shares of Chesapeake common stock, when paid, in additional shares of Chesapeake common stock.
- a Direct Stock Purchase component which permits Plan participants, other registered stockholders and new investors to purchase shares of Chesapeake common stock in a convenient manner without incurring brokerage commissions or transaction/processing fees.

In the event that shares of common stock are purchased under the Plan from Chesapeake, the proceeds will be used by Chesapeake for general corporate purposes.

**Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 6 of this Prospectus for a discussion of information that should be considered in connection with an investment in our securities.**

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is \_\_\_\_\_, 2011

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You should rely only on the information contained in this Prospectus or to which we refer you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this Prospectus may be accurate only on the date of this Prospectus.

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### FORWARD-LOOKING STATEMENTS

*This Prospectus and the documents incorporated by reference in this Prospectus contain forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and variations of these words or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially from those expressed or forecasted in any forward-looking statements as a result of a variety of factors, including those set forth in "Risk Factors" below and elsewhere in, or incorporated by reference into, this Prospectus. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.*

### PROSPECTUS SUMMARY

#### Company Overview

Chesapeake is a diversified utility company engaged in various energy and other businesses. We were incorporated in the State of Delaware in 1947. On October 28, 2009, we completed a merger with Florida Public Utilities Company ("FPU"), pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. We operate regulated energy businesses through our natural gas distribution divisions in Delaware, Maryland and Florida, natural gas and electric distribution operations in Florida through FPU, and natural gas transmission operations on the Delmarva Peninsula and Florida through our subsidiaries, Eastern Shore Natural Gas Company and Peninsula Pipeline Company, Inc., respectively. Our unregulated energy businesses include our natural gas marketing operation through Peninsula Energy Services Company, Inc.; propane distribution operations through Sharp Energy, Inc. and its subsidiary Sharpgas, Inc. and FPU's propane distribution subsidiary, Flo-Gas Corporation; and our propane wholesale marketing operation through Xeron, Inc. We also have an advanced information services subsidiary, BravePoint<sup>®</sup>, Inc. Our principal executive office is located at 909 Silver Lake Boulevard, Dover, Delaware 19904, and our telephone number is (302) 734-6799. Our website address is <http://www.chpk.com>. Unless expressly incorporated by reference, information contained on or made available through our website is not a part of this Prospectus or any accompanying Prospectus supplement.

#### Overview of Offering

This Prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the "SEC") relating to the offer and sale of up to 546,343 shares of our common stock under our Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"). You should read this Prospectus together with additional information described under the headings, "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."

#### Key features of the Plan include:

- Dividends on both shares of Chesapeake common stock held through the Plan and shares registered in the name of a participant can be fully reinvested or partially reinvested in additional shares of Chesapeake common stock.
- Plan participants may have cash dividends that are not reinvested, deposited directly into a designated account with a U.S. bank or other approved financial institution.
- Plan participants and registered Chesapeake stockholders who are not Plan participants may purchase additional shares of Chesapeake common stock by making optional cash investments through the Direct Stock Purchase component of the Plan in the minimum amount of \$100 per investment, up to a maximum aggregate amount of \$100,000 per calendar year.
- A new investor who does not own shares of Chesapeake common stock may purchase shares through the Direct Stock Purchase component of the Plan by making an initial investment of at least \$500, up to a maximum amount of \$100,000.
- Plan participants, other registered stockholders and new investors may, at Chesapeake's sole discretion, make optional cash investments in excess of the maximum annual limit of \$100,000, if Chesapeake grants a "Request for Waiver."

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- Plan participants may elect to have funds for optional cash investments automatically deducted on a one-time or a monthly basis from a designated account with a U.S. bank or other approved financial institution.
- A stockholder may deposit any or all of the certificates registered in the stockholder's name with the Plan Administrator for safekeeping.
- Employees of Chesapeake and its subsidiaries may participate in the Plan through payroll deductions.

Unless otherwise indicated or unless the context requires otherwise, all references in this Prospectus to "we," "us," "our," the "Corporation," the "Registrant" or "Chesapeake" mean Chesapeake Utilities Corporation and all entities owned or controlled by Chesapeake Utilities Corporation. When we refer to our "Certificate of Incorporation," we mean Chesapeake Utilities Corporation's Restated Certificate of Incorporation, and when we refer to our "Bylaws," we mean Chesapeake Utilities Corporation's Amended and Restated Bylaws.

## **RISK FACTORS**

Investing in our securities involves risks. You should carefully consider the risks described under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and in the other documents incorporated by reference into this prospectus (which risk factors are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus, or in any prospectus supplement hereto, before making a decision to invest in our securities. See "Where You Can Find More Information," in the Table of Contents.

## **USE OF PROCEEDS**

In the event that shares of common stock are purchased under the Plan, we will use the proceeds for general corporate purposes.

## **DETERMINATION OF OFFERING PRICE**

The purchase price per share of common stock purchased from Chesapeake (other than purchases pursuant to Requests for Waiver as defined below in the section titled "Description of the Plan") will be equal to 100% of the average of the high and low sales prices of the common stock, based on the New York Stock Exchange Composite Transactions by 4:00 p.m. Eastern Time as reported on the investment date, but in no event will we sell shares of common stock under the Plan at less than the par value per share.

The price per share of our common stock purchased in the open market or in negotiated transactions will be the weighted average purchase price of all shares of common stock purchased with funds to be invested as of the particular investment date.

## **DESCRIPTION OF THE PLAN**

To enroll in the Plan, a stockholder must complete and return to the Plan Administrator an Enrollment Form. A new investor must complete and submit an Initial Enrollment Form. For further enrollment information, please refer to the Eligibility and Enrollment section of this Prospectus beginning with Question No. 5 below or contact the Plan Administrator.

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### **Fees Associated With the Plan**

The following is a list of the principal transactions and services provided to participants in the Plan and the associated fees. Participants are responsible only for those fees not paid by Chesapeake.

Initial Investment	\$10 Enrollment Fee
Dividend Reinvestment	Paid by Chesapeake
Direct Deposit of Dividends	Paid by Chesapeake
Optional Cash Investments	Paid by Chesapeake
Automatic Debiting for Optional Cash Investments	Paid by Chesapeake
Sale of Stock/Termination	Convenience Fee of \$0.15/share (Convenience Fees cover any applicable brokerage commissions the Plan Administrator is required to pay)
Safekeeping	Paid by Chesapeake
Book Transfers	Paid by Chesapeake
Request for Certificate	Paid by Chesapeake
Returned Check or Failed Electronic Payment	\$25 per occurrence

The following is a statement in question and answer format of the provisions of the Plan as approved by our Board of Directors and as currently in effect. The Plan first became effective on April 27, 1989, and has been amended from time to time thereafter through the date of this Prospectus.

### **Purpose**

#### **1. What is the purpose of the Plan?**

The purpose of the Dividend Reinvestment component of the Plan is to provide Chesapeake stockholders with a convenient and economical method of reinvesting cash dividends in additional shares of common stock.

The purpose of the Direct Stock Purchase component of the Plan is to provide Plan participants and registered stockholders who are not participants in the Plan with a convenient and economical method of purchasing additional shares of common stock without payment of brokerage commissions or transaction/processing fees. A new investor may become a stockholder by making an initial minimum investment of \$500. The waiver provision of the Direct Stock Purchase component of the Plan enables Plan participants to make optional cash investments in excess of the maximum annual limit of \$100,000 if Chesapeake grants a "Request for Waiver."

The Plan also provides a stockholder with the opportunity to deposit with the Plan Administrator for safekeeping, certificates for shares of Chesapeake common stock registered in the stockholder's name. Chesapeake may direct the Plan Administrator to purchase shares either in the open market or from Chesapeake to satisfy the requirements of the Plan. Shares purchased from Chesapeake will provide Chesapeake with funds, which it intends to use for general corporate purposes.

### **Advantages**

#### **2. What are some of the advantages of the Plan?**

- Participants have flexibility to reinvest all, a portion or none of their dividends in additional shares of Chesapeake common stock.
- Participants may direct that cash dividends that are not reinvested be deposited into a designated account with a U.S. bank or other approved financial institution.
- No fees or commissions are charged to the participant on purchases of Chesapeake common stock.
- Participants and registered stockholders who are not participants in the Plan can purchase additional shares of Chesapeake common stock by making optional cash investments in the minimum amount of \$100 per investment, up to a maximum aggregate amount of \$100,000 per calendar year.

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- Investors who currently do not own shares of Chesapeake common stock can become Plan participants by making an initial investment of at least \$500, up to a maximum amount of \$100,000.
- Payments for the purchase of shares can be made by check or through the automatic debiting of a designated account with a U.S. bank or other approved financial institution.
- Participants may deposit Chesapeake common stock certificates registered in their name with the Plan Administrator for safekeeping.
- Plan shares can be transferred or given as gifts at no charge to the participant.
- Plan shares can be sold through the Plan Administrator.
- Employees of Chesapeake and its subsidiaries may participate in the Plan through payroll deductions.

## Administration

### 3. Who administers the Plan?

The Plan is administered by Computershare Trust Company, N.A., (the "Plan Administrator" or "Computershare"), a federally chartered trust company (formerly known as EquiServe Trust Company). The Plan Administrator's responsibilities include effecting Chesapeake common stock purchases on behalf of the Plan, maintaining participants' accounts, keeping the necessary records, sending statements of account to participants and performing other administrative duties relating to the operation of the Plan. The Plan Administrator's contact information is shown below.

All questions concerning participation in the Plan or with regard to a participant's account under the Plan should be directed to the Plan Administrator. The Plan Administrator may be contacted in writing, by telephone or via the Internet as indicated below.

The following address for the Plan Administrator should be used for Plan-related correspondence including, but not limited to, inquiries concerning dividend reinvestment and optional cash investments, assistance with becoming a stockholder through the Direct Stock Purchase component of the Plan, the delivery of stock certificates for the safekeeping of shares and the submission of enrollment forms (except, as more fully described below, where the Enrollment Form is accompanied by a check). **Please note that cash, third party checks, traveler's checks and money orders will not be accepted.**

Computershare Trust Company, N.A.  
 c/o Chesapeake Utilities Corporation  
 P.O. Box 43078  
 Providence, RI 02940-3078  
 Telephone: 877.498.8865 (U.S. and Canada)  
 781.575.2879 (outside of the U.S. and Canada)  
 Internet: [www.computershare.com/investor](http://www.computershare.com/investor)

In the case of registered stockholders who are not Plan participants, the Enrollment Form should be sent to the address headed **Optional Cash Investments** below.

All checks representing initial cash investments of new investors, along with the Initial Enrollment Form, should be sent to the address headed **Initial Investments** below.

**Optional Cash Investments**  
 Computershare Trust Company, N.A.  
 c/o Chesapeake Utilities Corporation  
 P.O. Box 6006  
 Carol Stream, IL 60197-6006

**Initial Investments**  
 Computershare Trust Company, N.A.  
 c/o Chesapeake Utilities Corporation  
 P.O. Box 43078  
 Providence, RI 02940-3078

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Checks for both optional cash investments and new investments should be made payable to: “**Computershare – Chesapeake Utilities Corporation.**”

For information relating to payment, please refer to the Methods of Payment section in this prospectus beginning with Question No. 19.

All shares of Chesapeake common stock purchased under the Plan or deposited for safekeeping will be registered in the name of the Plan Administrator or its nominee as the agent for the Plan participants. As record holder of shares held for participants’ accounts, the Plan Administrator will receive and reinvest for the account of a Plan participant dividends both on shares held for the participant by the Plan and on shares held by the participant in certificate form that the participant does not elect to receive in cash. The Plan Administrator will hold all shares of common stock purchased for each participant or deposited for safekeeping under the Plan until directed otherwise by a notice received from the participant. The Plan Administrator also acts as dividend disbursing agent, transfer agent and registrar for Chesapeake.

### **4. What are the limitations on the responsibilities of Chesapeake and the Plan Administrator under the Plan?**

Neither Chesapeake nor the Plan Administrator will be liable for any good faith act or for any good faith omission to act in connection with the administration of the Plan, including, without limitation, with respect to the prices or times at which shares of common stock are purchased or sold under the Plan or any claim or liability arising out of failure to cease reinvestment of dividends for a participant’s account upon the participant’s death prior to receipt of written notice of death from the appropriate fiduciary.

A participant should recognize that neither Chesapeake nor the Plan Administrator can assure the participant of a profit or protect the participant against a loss from an investment in shares of Chesapeake common stock purchased under the Plan.

## **Eligibility and Enrollment**

### **5. Who is eligible to participate in the Plan?**

Any person or entity, whether or not a stockholder, is eligible to participate in the Plan. A registered Chesapeake stockholder or a person or entity that is not a Chesapeake stockholder can become a participant in the Plan by completing the appropriate Enrollment Form. A person or entity who is the beneficial owner of Chesapeake common stock through an account with a broker, bank or other nominee must make appropriate arrangements with the broker, bank or other nominee to become a participant in the Plan (including the payment of any associated fees that may be charged by the broker, bank or other nominee), or the beneficial owner must become a registered stockholder by having the shares transferred into the beneficial owner’s name. To have shares registered in his or her name, a beneficial owner must request the issuance of a certificate for the shares from the broker, bank or other nominee. Alternatively, a beneficial owner may become a participant in the Plan by purchasing additional shares of Chesapeake common stock in accordance with the instructions set forth below for new investors. See Question No. 7. A new investor residing outside of the United States, or its territories and possessions, should determine whether he or she is subject to any governmental regulation that prohibits participation in the Plan.

Chesapeake reserves the right to restrict the participation in the Plan of any participant who, in Chesapeake’s opinion, is misusing the Plan or is causing undue expense to Chesapeake.

### **6. How does a registered stockholder become a participant in the Plan?**

A registered stockholder may become a participant in the Plan at any time by completing an Enrollment Form and returning it to the Plan Administrator at the address indicated in Question No. 3. Where the stock to be enrolled in the Plan is registered in more than one name (i.e., joint tenants, etc.), all registered stockholders must sign the Enrollment Form. An Enrollment Form may be obtained at any time by contacting the Plan Administrator. A registered stockholder also may become a participant in the Plan by accessing the Plan Administrator’s website, authenticating his or her online account and completing an online Enrollment Form.

***Prospective Plan participants are urged to read this Prospectus in its entirety before deciding to enroll in the Plan.***

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### **7. How does a new investor become a participant in the Plan?**

An investor who is not a stockholder may become a participant in the Plan at any time by completing an Initial Enrollment Form, returning it to the Plan Administrator and making an initial investment of at least \$500, up to a maximum amount of \$100,000. New investors also can make optional cash investments in excess of the \$100,000 maximum if Chesapeake initiates a Request for Waiver. See Question No. 18. Any amounts of less than \$500 tendered for an initial investment will be returned to the investor. Payments for an initial investment can be made either by check or by authorizing the debit of a designated account with a U.S. bank or other approved financial institution as more fully described in Question No. 19. **Cash, traveler's checks, money orders and third-party checks will not be accepted.**

The Initial Enrollment Form may be obtained at any time by contacting the Plan Administrator. A new investor also can become a participant in the Plan by enrolling online at [www.computershare.com/investor](http://www.computershare.com/investor) and following the instructions provided.

***Prospective Plan participants are urged to read this Prospectus in its entirety before making an investment decision to purchase shares of Chesapeake common stock.***

### **8. What are the fees associated with an initial investment by a new investor?**

A new investor will be charged a one-time \$10 enrollment fee to establish a Plan account. The \$10 fee will be subtracted from the payment delivered for the purchase of shares (i.e., a new investor is required to send an initial minimum investment of \$500, from which the \$10 fee will be subtracted, leaving \$490 to be invested).

### **9. When does participation in the Plan by a registered stockholder or new investor become effective?**

A registered stockholder or new investor can, at any time, submit the required Enrollment Form to become a participant in the Plan.

In the case of the enrollment in the Plan of shares owned by a registered stockholder, participation in the Plan will commence upon delivery to the Plan Administrator of the required Enrollment Form.

In the case of the enrollment in the Plan by a new investor, participation in the Plan will commence upon delivery to the Plan Administrator of the required Enrollment Form and the initial cash investment amount followed by the subsequent purchase by the Plan Administrator of the shares of Chesapeake common stock for the participant's account.

When participation in the Plan commences on or prior to any cash dividend record date, the dividends paid on the enrolled shares on the corresponding dividend payment date will be reinvested in accordance with the participant's instructions. If participation commences after a cash dividend record date, the reinvestment of dividends, in accordance with the option selected by the participant, will commence with the next following dividend payment.

## **Dividend Reinvestment Options**

### **10. What dividend reinvestment options are available to participants in the Plan?**

<b>Full Dividend Reinvestment</b>	Directs the Plan Administrator to reinvest automatically, in accordance with the terms of the Plan, dividends on (i) all shares of common stock registered in the participant's name and (ii) all shares of common stock credited to the participant's account under the Plan.
<b>Partial Dividend Reinvestment</b>	Directs the Plan Administrator to distribute to the Plan participant in cash the dividends on that portion of the participant's shares (including both (i) shares of common stock registered in the participant's name and (ii) shares of common stock credited to the participant's account under the Plan) designated by the participant, and to reinvest automatically, in accordance with the terms of the Plan, dividends on the remainder of the participant's shares.
<b>All Cash (no dividend reinvestment)</b>	Directs the Plan Administrator to distribute to the participant in cash the dividends on all of the participant's shares whether registered in the participant's name or credited to the participant's account under the Plan.



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Regardless of the dividend reinvestment option selected, any dividends that a participant elects to receive in cash will be paid to the participant by check or, if the participant so elects, the dividend may be deposited directly into an account designated by the participant with a U.S. bank or other approved financial institution.

Under each of the three dividend reinvestment options, a Plan participant may elect to make optional cash investments at any time or to deposit shares with the Plan Administrator for safekeeping.

### **11. Can a participant change his or her dividend reinvestment option?**

Yes. A participant at any time may change his or her dividend reinvestment election to any of the other dividend reinvestment options by accessing his or her account online at the Plan Administrator's website, by contacting the Plan Administrator or by completing a new Enrollment Form and returning it to the Plan Administrator. Any change received by the Plan Administrator on or prior to the record date for a dividend payment will become effective for that dividend payment.

### **12. When will the dividend reinvestment purchases be made?**

The investment date for the reinvestment of cash dividends is the dividend payment date. If a dividend payment date falls on a weekend, holiday or another day on which the New York Stock Exchange is closed, the investment date will be the next trading day. Shares of common stock acquired from Chesapeake will be purchased on the investment date and will be credited to participants' accounts on that day or as soon as practicable thereafter. The purchase of shares acquired in the open market or in negotiated transactions will begin on the investment date and will be completed as soon as practicable and will be credited to participants' accounts upon the completion of all purchases.

## **Direct Deposit of Cash Dividends**

### **13. May a participant have cash dividends deposited directly into a designated U.S. bank account?**

Yes. Direct deposit of dividends is available to any Plan participant who is receiving cash dividends on all or a portion of his or her shares of Chesapeake common stock, whether registered in the participant's name or credited to the participant's account under the Plan. A Plan participant may elect to have all cash dividends paid by electronic transfer of funds to a designated account with a U.S. bank or other approved financial institution by sending a completed Authorization for Electronic Direct Deposit Form to the Plan Administrator. This form is available by contacting the Plan Administrator. A stockholder may change the designated account or discontinue receiving direct deposit of dividends at any time by contacting the Plan Administrator.

## **Optional Cash Investments up to \$100,000 Per Calendar Year**

### **14. How does the optional cash investment feature work for investments up to \$100,000 per year?**

Both Plan participants and registered stockholders of Chesapeake who are not Plan participants are permitted to purchase additional shares of Chesapeake common stock through optional cash investments. Each optional cash investment must be a minimum of \$100 and, in the aggregate, cannot exceed \$100,000 in any calendar year. Funds tendered that are less than the minimum investment amount or in excess of the maximum annual amount will be returned to the investor. There is no obligation to make an optional cash investment nor is there a requirement that the same amount be invested each time an optional cash investment is made. Payments for optional cash investments can be made by check or by online authorization of a one-time debit or automatic monthly debits from a designated account with a U.S. bank or other approved financial institution as more fully described in Question No. 19.

A registered stockholder who is not a Plan participant at the time of an optional cash investment, as a condition to the investment, must enroll in the Plan by completing an Enrollment Form and returning it to the Plan Administrator at the address indicated in Question No. 3. An Enrollment Form may be obtained by contacting the Plan Administrator. A stockholder also may enroll in the Plan online by accessing the Plan Administrator's website, authenticating his or her online account and completing an online Enrollment Form.

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All shares of common stock purchased with optional cash investments will be credited to a participant's account under the Plan (or in the case of a registered stockholder who prior to the purchase was not a Plan participant, shares will be credited to a newly-established account under the Plan). Thereafter, all dividends on such shares will either be reinvested or paid to the participant in cash, depending on the participant's dividend reinvestment election. See Question No. 10.

### **15. When will optional cash investment purchases be made?**

The investment date for optional cash investments (other than purchases pursuant to Requests for Waiver as described below) is the fifth day of each month, except months in which the fifth day falls on a weekend, holiday or another day when the New York Stock Exchange is closed, in which case the investment date will be the next trading day. Funds for optional cash investments received by the Plan Administrator on or before the second business day prior to an investment date will be used to purchase shares of common stock on or beginning on the investment date. Funds for optional cash investments received later than the second business day prior to an investment date will be held by the Plan Administrator until the next monthly investment date, unless a request for the return of the funds is received by the Plan Administrator at least two business days prior to the next monthly investment date.

Shares of common stock acquired from Chesapeake will be purchased on the investment date and will be credited to participants' accounts on that date or as soon as practicable thereafter. The purchase of shares acquired in the open market or in negotiated transactions will begin on the investment date and will be completed as soon as practicable and will be credited to participants' accounts upon the completion of all purchases.

### **16. Is interest paid on funds tendered for optional cash investments that are received prior to an investment date?**

No. Under no circumstances will interest be paid on funds for optional cash investments tendered at any time prior to the investment date. Participants are therefore urged to time the transmittal of funds for optional cash investments so that they are received by the Plan Administrator as close as possible to, but no later than two business days in advance of, an investment date.

### **17. Under what circumstances may a participant rescind an optional cash investment request?**

Funds for optional cash investments (including payroll deductions) received by the Plan Administrator will be returned to the participant upon request if received by the Plan Administrator at least two business days prior to the next monthly investment date.

### **Requests for Waiver for Optional Cash Investment in Excess of \$100,000**

#### **18. Under what circumstances may stockholders and new investors make cash investments in excess of \$100,000 per calendar year?**

Optional cash investments in Chesapeake common stock in excess of \$100,000, including initial investments in excess of \$100,000, may be made by current stockholders (including Plan participants) and new investors only if a waiver of the \$100,000 limit is granted by Chesapeake. Chesapeake, in its sole discretion, may elect, from time to time or on a periodic schedule as determined by Chesapeake, to initiate the procedures by which stockholders and new investors can request a waiver of the \$100,000 limit (a "Request for Waiver"). All shares purchased pursuant to a Request for Waiver will be sold by Chesapeake. Chesapeake has established the following procedures governing Requests for Waiver.

#### *Submitting a Request for Waiver*

On the first business day of each month, Chesapeake will post a prerecorded telephone message (telephone number: 302.734.6019) either (i) announcing that Chesapeake is or is not receiving Requests for Waiver for that month or (ii) providing a specified date for prospective investors to call back for an announcement of whether Chesapeake will be accepting Requests for Waiver for that month. If in the initial or a subsequent announcement Chesapeake indicates that it is receiving Requests for Waiver for that month, the announcement will specify (in each case as more fully described below):

- the commencement date of the pricing period and the number of trading days in the pricing period or the date on which Chesapeake will announce the commencement date and number of trading days in the pricing period;

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- the threshold price, if Chesapeake determines that the proposed sale of shares will be subject to a threshold price, or the date on which Chesapeake will announce whether the proposed sale of shares will be subject to a threshold price;
- whether the offering will include the pricing period extension feature, or the date on which Chesapeake will announce whether the offering will include the pricing period extension feature; and
- whether shares are being offered at a discount to the market price and, if so, what percentage, or the date on which Chesapeake will announce whether shares are being offered at a discount to the market price and, if so, what percentage.

All announcements by Chesapeake regarding Requests for Waiver will be made by a prerecorded telephone message (telephone number: 302.734.6019) that is posted no later than 9:00 a.m. Eastern Time on the day in question.

A stockholder or new investor wishing to purchase common stock on the terms specified by Chesapeake must complete and submit a Request for Waiver form to Chesapeake indicating the dollar amount proposed to be invested. All Requests for Waiver must be received by Chesapeake via facsimile at 302.734.6750 no later than 2:00 p.m. Eastern Time on the third business day prior to the commencement of the pricing period. A Request for Waiver form may be obtained by contacting the Plan Administrator.

Chesapeake will decide whether to accept any or all of the Requests for Waiver received, and will notify any investors whose Requests for Waiver have been accepted, by 9:00 a.m. Eastern Time on the second business day prior to the commencement of the pricing period. Requests for Waiver may be accepted by Chesapeake in whole or in part, in its sole discretion.

The Plan Administrator must receive the funds for the purchase of shares pursuant to an accepted Request for Waiver by wire transfer no later than 2:00 p.m. Eastern Time on the business day prior to the commencement of the pricing period. Wire transfer instructions may be obtained by contacting the Plan Administrator. Once funds are received by the Plan Administrator for the purchase of shares pursuant to a Request for Waiver, the obligation of a stockholder or new investor to purchase the shares becomes legally binding, and the funds will only be returned as directed by Chesapeake. If sufficient funds to cover the full amount of an accepted Request for Waiver are not received by the 2:00 p.m. Eastern Time deadline, Chesapeake may, in its sole discretion, elect either to revoke its acceptance of the Request for Waiver or to deem the Request for Waiver accepted as to the lesser amount of funds. Any funds received in respect of a revoked Request for Waiver will be returned without interest.

If Requests for Waiver are submitted for a total amount greater than the amount Chesapeake is willing to accept for any investment date, Chesapeake may honor the requests received on any basis that Chesapeake, in its sole discretion, considers appropriate. Chesapeake has sole and absolute discretion to accept or reject any or all Requests for Waiver and has no obligation to disclose the reasons for its decision.

Aside from posting recorded telephone messages, neither Chesapeake nor the Plan Administrator is required to provide written or other notice of the decision of Chesapeake to receive the submission of Requests for Waiver or the terms on which shares of common stock are being offered. However, Chesapeake may, if it so elects, provide such further or alternative notices of a decision to receive Requests for Waiver as it determines to be appropriate.

Without limitation on its right to accept or reject Requests for Waiver in its sole discretion, Chesapeake reserves the right to terminate any account or deny any Request for Waiver if Chesapeake believes a purchaser is making excessive optional cash investments through multiple stockholder accounts, is engaging in arbitrage activities or is otherwise engaging in activities under the Plan in a manner which is not in the best interest of Chesapeake or which may cause the participant to be treated as an underwriter under the Federal securities laws.

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### *Pricing Period*

Chesapeake will specify in the prerecorded message announcing whether it is receiving Requests for Waiver for a particular month or in a subsequent prerecorded message for that month the number of consecutive trading days (generally between five and ten days) over which the purchase price of Chesapeake common stock pursuant to accepted Requests for Waiver will be calculated (the “pricing period”). The purchase price of shares will be calculated based upon the unsolicited volume weighted average price, rounded to three decimal places, of Chesapeake common stock obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m. Eastern Time (the “trading price”) for each trading day during the designated pricing period, calculated pro-rata on a daily basis. For example, assume Chesapeake has established a ten-day pricing period and has granted a Request for Waiver for an investment of \$100,000. To calculate the number of shares of common stock to be purchased, a hypothetical number of shares will be deemed purchased on each day of the pricing period, which will be determined by dividing a pro rata portion of the entire optional cash investment amount, in this case \$10,000 (1/10 of the entire investment amount), by the trading price on that day. On the last day of the pricing period, the entire optional cash investment amount of \$100,000 will be divided by the total number of hypothetical shares deemed purchased over the ten-day pricing period to establish the purchase price (rounded to three decimal places) for the \$100,000 investment. That purchase price will then be reduced by the amount of the waiver discount (as described below), if any. The actual number of shares purchased from Chesapeake will be calculated by dividing the total investment amount, \$100,000, by the purchase price (or discounted purchase price, if applicable).

The investment date for the purchase of shares of Chesapeake common stock pursuant to a Request for Waiver will be the last day of the pricing period (or, if applicable, the extended pricing period, as described below). On the investment date, the Plan Administrator will apply all funds submitted pursuant to accepted Requests for Waiver (or a lesser amount if, as more fully described below, a threshold price is established, but not satisfied on one or more days during the pricing period) to the purchase of shares of Chesapeake common stock from Chesapeake.

### *Threshold Price*

Chesapeake may, in its sole discretion, establish for any pricing period, a “threshold price” applicable to optional cash investments made pursuant to Requests for Waiver. The threshold price will be the minimum price used for the determination of the purchase price of Chesapeake common stock pursuant to Requests for Waiver during the pricing period. The establishment of a threshold price will be announced either in the prerecorded message announcing the receipt of Requests for Waiver for a particular month or in a subsequent prerecorded message (posted no later than three business days prior to the first day of the pricing period) for that month. Chesapeake will establish the threshold price in its sole discretion, based on any factors that it considers relevant.

If a threshold price is established for any pricing period, the unsolicited volume weighted average price obtained from Bloomberg, LP (rounded to three decimal places), for the trading hours from 9:30 a.m. to 4:00 p.m. Eastern Time, must equal or exceed the threshold price in order to be taken into account in establishing the purchase price of the shares of Chesapeake common stock pursuant to accepted Requests for Waiver. In the event the threshold price is not satisfied for one or more trading days in the pricing period or there are no trades of Chesapeake common stock reported by the New York Stock Exchange for one or more trading days in the pricing period (and assuming Chesapeake has not announced the activation of the optional pricing period extension feature, as described below), then (i) those trading days will be excluded from the pricing period and (ii) the amount to be invested pursuant to each accepted Request for Waiver will be reduced in proportion to the number of days in the pricing period on which the threshold price was not satisfied or there were no trades in Chesapeake common stock reported by the New York Stock Exchange. For example, assume Chesapeake has established a ten-day pricing period and has granted a Request for Waiver for an investment of \$100,000. Further, assume that Chesapeake has established a threshold price of \$24, which is satisfied on eight of the ten days in the pricing period. As a consequence, the pricing period will be reduced to eight days and the amount permitted to be invested pursuant to the Request for Waiver will be reduced to \$80,000. To calculate the number of shares of Chesapeake common stock to be purchased, a hypothetical number of shares will be deemed purchased on each day of the eight days in the pricing period, which will be determined by dividing a pro rata portion of the permitted optional cash investment, in this case \$10,000 (1/8 of the permitted investment amount) by the trading price on that day. On the last day of the pricing period, the permitted optional cash investment amount of \$80,000 will be divided by the total number of hypothetical shares deemed purchased over the eight-day pricing period to establish the purchase price (rounded to three decimal places) for the \$80,000 investment. That purchase price will then be reduced by the amount of the waiver discount (as described below), if any. The actual number of shares purchased from Chesapeake will be calculated by dividing the permitted investment amount, \$80,000, by the purchase price (or discounted purchase price, if applicable).



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The portion of the funds tendered that are not used to purchase shares of Chesapeake common stock will be returned, without interest, to the stockholder or new investor as soon as reasonably practicable after the end of the pricing period.

### *Optional Pricing Period Extension Feature*

Chesapeake may elect in connection with purchases pursuant to Requests for Waiver during any pricing period whether to activate the optional pricing extension feature. Chesapeake will announce whether it has elected to activate this feature in the prerecorded message announcing whether it is receiving Requests for Waiver for a particular month or in a subsequent prerecorded message (posted no later than three business days prior to the first day of the pricing period) for that month.

If activated, the optional pricing period extension feature provides for an extension of the initial pricing period by the number of days (up to a maximum of five days) during the initial pricing period on which the threshold price is not met or there are no reported trades of Chesapeake common stock on the New York Stock Exchange. If the threshold price is satisfied on any day during the extended pricing period, that day will be included as a trading day for the pricing period in lieu of the day on which the threshold price was not met or there were no reported trades. For example, if the pricing period is to be ten trading days, and the threshold price is not satisfied for three out of those ten days, and Chesapeake had previously announced that the optional pricing period extension feature has been activated, then the pricing period will automatically be extended for an additional three trading days, and if the threshold price is satisfied on two of the next three trading days, then those two trading days will be included in the pricing period in lieu of two of the three days on which the threshold price was not met or there are no reported trades of Chesapeake common stock on the New York Stock Exchange. As a result, the purchase price will be based upon the nine trading days of the initial and extended pricing period on which the threshold price was satisfied and 90% of the funds for optional cash investments pursuant to Requests for Waiver will be invested (as opposed to a pricing period of seven days had the optional pricing period extension feature not been activated, which would have resulted in 30% of the amount tendered for investment pursuant to Requests for Waiver being returned to the stockholder or new investor).

Any portion of the funds tendered that are not used to purchase shares of Chesapeake common stock will be returned, without interest, to the stockholder or new investor as soon as reasonably practicable after the end of the extended pricing period.

### *Waiver Discount*

Chesapeake may elect, in its sole discretion, in connection with purchases pursuant to Requests for Waiver during any pricing period whether to establish a "waiver discount" of up to 2% of the purchase price that otherwise would apply. Chesapeake will announce this decision in the prerecorded message announcing whether it is accepting Requests for Waiver for a particular month or at a subsequent prerecorded message (posted no later than three business days prior to the first day of the pricing period) for that month. The waiver discount may vary from month to month, but will apply uniformly to all optional cash investments made pursuant to Requests for Waiver with respect to a particular month.

Chesapeake will determine, in its sole discretion, whether to establish a waiver discount after a review of current market conditions and Chesapeake's current and projected capital needs and any other factors that Chesapeake considers relevant.

## **Methods of Payment**

### **19. What payment methods are accepted by the Plan Administrator?**

Plan participants, registered stockholders who are not Plan participants and new investors purchasing shares of Chesapeake common stock through optional cash investments are required to deliver payment for the shares to the Plan Administrator. **Payments should not be mailed or otherwise delivered to Chesapeake.**

The Plan Administrator will accept the following methods of payment for optional cash investments of \$100,000 or less. Instruction for the submission of payment for investments pursuant to Requests for Waiver has been previously discussed in Question No. 18.

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### *By Check*

The Plan Administrator will accept personal checks in U.S. funds and drawn against a U.S. bank or other approved financial institution for payment of optional cash investments by stockholders and new investors. All such checks should be made payable to "Computershare – Chesapeake Utilities Corporation." Cash, traveler's checks, money orders and third-party checks will not be accepted. If the stockholder making the optional cash investment is not a participant in the Plan, the check must accompany the Enrollment Form, which can be obtained by mail or online, or by calling the Plan Administrator. If a new investor is making an initial investment, the check must accompany the Initial Enrollment Form, which can be obtained by mail or online, or by calling the Plan Administrator. All checks and the appropriate form(s) should be mailed to the Plan Administrator at the address specified in Question No. 3. Checks received without the required accompanying form(s) may be returned by the Plan Administrator.

If a check for an optional cash investment or an initial investment is dishonored, refused or otherwise returned unpaid, any credit of shares of Chesapeake common stock to the participant's account in anticipation of receiving the funds will be reversed and the Plan Administrator may immediately sell any shares purchased for the account of the investor. In addition, the investor will be assessed a fee of \$25 and will be responsible for any other associated costs of the Plan Administrator. This fee and any other associated costs of the Plan Administrator will be deducted from any cash balance in the participant's account or, if sufficient funds are not available, the Plan Administrator may sell shares from the participant's Plan account to satisfy the uncollected balance.

### *By One-Time Debit From a Designated Account*

As an alternative to payment for an optional cash investment by check, a Plan participant or registered stockholder may authorize a one-time debit from a checking or savings account maintained with a U.S. bank or other approved financial institution by accessing his or her account online at the Plan Administrator's website and following the instructions provided. Likewise, a new investor can give online authorization of a one-time debit of a checking or savings account maintained with a U.S. bank or other approved financial institution to fund his or her initial investment. This can be facilitated by accessing the Plan Administrator's website and following the instructions provided.

### *By Automatic Monthly Debits From a Designated Account*

A Plan participant or registered stockholder may authorize optional cash investments on a monthly basis by electing to have funds automatically debited once each month from a checking or savings account maintained with a U.S. bank or other approved financial institution.

A Plan participant can authorize automatic monthly debits by:

- accessing the participant's Plan account online with the Plan Administrator and following the instructions provided; or
- completing and signing a Direct Debit Authorization Form and returning it to the Plan Administrator, together with a voided blank check or savings deposit slip for the bank account from which the funds are to be withdrawn.

A registered stockholder who is not a Plan participant can authorize automatic monthly debits by:

- accessing his or her account online with the Plan Administrator and following the instructions provided; or
- completing an Enrollment Form and a Direct Debit Authorization Form.

Once automatic monthly debits begin, funds will be withdrawn from the participant's designated account on the first of each month or the next business day if the first is not a banking business day. A participant may change the amount debited or discontinue automatic debits by calling the Plan Administrator, completing and submitting to the Plan Administrator a new Direct Debit Authorization Form or by accessing his or her Plan account online and following the instructions provided. To be effective for a particular investment date, the Plan Administrator must receive the new instructions at least six business days before the investment date.

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### *Online Payment*

Plan participants, registered stockholders, or new investors may also make online payments by accessing the Plan Administrator's website, if they choose to purchase shares online. Plan participants and registered stockholders will be required to authenticate his or her online account with the Plan Administrator by accessing the Plan Administrator's website at [www.computershare.com/investor](http://www.computershare.com/investor). New investors must first enroll online with the Plan Administrator at [www.computershare.com/investor](http://www.computershare.com/investor). Once an online account has been established or authenticated, a Plan participant, registered stockholder, or new investor may purchase his or her initial shares or additional shares by following the instructions provided on the Plan Administrator's website. Any questions regarding the online purchase of shares should be directed to the Plan Administrator. See Question No. 3.

### **Optional Cash Investments Through Payroll Deductions**

#### **20. Can an employee of Chesapeake or its subsidiaries make optional cash investments through payroll deductions?**

Yes. Any employee of Chesapeake or its subsidiaries is eligible to participate in the Plan through payroll deductions. To participate, an employee must obtain a Payroll Deduction Authorization Form from the Human Resources Department. The Payroll Deduction Authorization Form authorizes Chesapeake to deduct the amount specified by the employee (of not less than \$50 per calendar quarter) from the employee's after-tax earnings. Payroll deductions may not at any time exceed the employee's after-tax earnings nor may the total of all optional cash investments (including investments other than by payroll deduction) during a calendar year exceed \$100,000. The initial purchase minimum amount of \$500 and subsequent investment minimum amount of \$100 per investment are waived for employees who participate in the Plan through payroll deductions.

In order to initiate payroll deductions, the Payroll Deduction Authorization Form must be completed and received by the Human Resources Department at least two weeks before the beginning of the first pay period for the commencement of deductions.

#### **21. When will the payroll deductions be received and invested by the Plan Administrator?**

Chesapeake will submit to the Plan Administrator accumulated payroll deductions for each month no later than two business days prior to the investment date in the next month. See Question No. 15. The Plan Administrator will apply these funds to the purchase of Chesapeake common stock as of the investment date.

#### **22. Can an employee change the amount of his or her payroll deductions?**

Yes. An employee for whom payroll deductions have commenced may change the amount of his or her deductions by submitting a new Payroll Deduction Authorization Form to the Human Resources Department. The Payroll Deduction Authorization Form must be received at least two weeks before the beginning of the pay period as of which the change in the amount of deduction is to take effect. The change will take effect within two weeks of receipt of the Payroll Deduction Authorization Form by the Human Resources Department.

#### **23. What happens when a pay period does not coincide with the end of the month?**

All deductions made after the last pay period of a month will be held by Chesapeake and invested with the payroll deductions for the next month. The payroll deductions transferred to the Plan Administrator for any month will consist of the deductions made for each payroll period that ended during the month. No interest will be paid on payroll deductions held for investment.

#### **24. Can an employee elect to discontinue payroll deductions?**

Yes. An employee for whom payroll deductions are being made may direct that Chesapeake discontinue such deductions by submitting a new Payroll Deduction Authorization Form to the Human Resources Department. The Payroll Deduction Authorization Form must be received at least two weeks before the beginning of the pay period as of which the employee wishes to cease such deductions.



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**Table of Contents****25. May an employee discontinue payroll deductions and still remain in the Plan?**

Yes. A participant who discontinues payroll deductions may retain his or her Plan account. Dividends paid on shares held in the participant's Plan account will continue to be reinvested or paid in cash in accordance with the participant's reinvestment election. See Question No. 10.

**Purchases of Shares Under the Plan****26. What is the source of the shares of common stock purchased under the Plan?**

Shares of Chesapeake common stock acquired under the Plan (other than purchases pursuant to Requests for Waiver) will be purchased by the Plan Administrator, at Chesapeake's discretion, (i) from Chesapeake (in which event the shares will be either authorized but unissued shares or shares held in the treasury of Chesapeake), (ii) in the open market or in one or more negotiated transactions or (iii) a combination of the foregoing. All shares of Chesapeake common stock purchased pursuant to Requests for Waiver will be purchased from Chesapeake.

**27. What will be the price of shares of common stock purchased under the Plan?**

The purchase price per share of Chesapeake common stock purchased from Chesapeake (other than purchases pursuant to Requests for Waiver) will be equal to 100% of the average of the high and low sales prices of the common stock, based on the New York Stock Exchange Composite Transactions by 4:00 p.m. Eastern Time as reported on the investment date, but in no event will shares of common stock be sold by Chesapeake under the Plan at less than the par value per share.

The price per share of Chesapeake common stock purchased in the open market or in negotiated transactions will be the weighted average purchase price of all shares of common stock purchased with funds to be invested as of the particular investment date.

No one will have any authority or power to direct the time or price at which shares for the Plan are purchased, and no one, other than the Plan Administrator will select the broker through or from whom purchases are to be made.

**28. How many shares of common stock will be purchased for participants?**

The number of shares purchased on any particular investment date will depend upon (i) the amount of dividends to be invested or optional cash investments to be made and (ii) the applicable purchase price per share. Each participant's account will be credited with that number of shares (including a fraction computed to six decimal places) equal to the participant's total amount to be invested divided by the applicable purchase price per share.

Because the purchase price of the shares will be based on market conditions existing at the time that investments are made, participants will not know the precise number of shares to be purchased for their accounts either at the time they elect to participate in the Plan or at the time they make optional cash investments.

**Reports and Other Communications to Participants****29. How will a participant be advised of the purchase of shares of common stock?**

Each Plan participant who reinvests dividends through the Plan will receive a quarterly statement following each dividend reinvestment. Each participant who makes optional cash investments also will receive a statement of account for any month in which an optional cash investment is made. A new investor who makes an initial investment also will receive a statement of account for the month in which the investment is made. These statements show any cash dividends reinvested and any investments made, the number of shares purchased, the purchase price, the number of shares held for the participant by the Plan after giving effect to the reported purchases, the number of shares registered in the name of the participant, and a report of each transaction for the current calendar year to date. Statements of account are mailed to participants as soon as practicable after each investment date. For shares acquired in the Plan after January 1, 2011, specific cost information has and will be included in a Plan participant's statement in accordance with applicable law.

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**These statements are a participant's continuing record of the cost of shares of Chesapeake common stock purchased under the Plan, and should be retained.**

### **30. What other communications does a Plan participant receive?**

Each participant will also receive future prospectuses for the Plan and copies of other communications sent to Chesapeake's stockholders, which typically include annual reports, annual meeting notices and proxy statements, as well as other financial materials and income tax information for reporting dividends paid by Chesapeake.

## **Safekeeping of Certificates**

### **31. How does the arrangement for the safekeeping of stock certificates work?**

The safekeeping arrangement for stock certificates gives a participant the opportunity to deposit Chesapeake common stock certificates registered in the participant's name with the Plan Administrator. When the shares are on deposit with the Plan Administrator, the participant is relieved of the safekeeping responsibility. This feature protects the stockholder from the risk of loss, theft or destruction of the certificates. Shares represented by certificates deposited with the Plan Administrator will be credited in book-entry form to the participant's account under the Plan. Dividends on shares deposited with the Plan Administrator will be reinvested or paid in cash in accordance with the participant's dividend payment election. See Question No. 10.

To deposit a stock certificate with the Plan Administrator for safekeeping, a participant must mail the certificate by registered or certified mail, with return receipt requested, or by some other form of traceable mail, and properly insured, to the Plan Administrator at the address set forth in Question No. 3. **DO NOT ENDORSE THE STOCK CERTIFICATE.**

## **Certificates for Shares**

### **32. Will stock certificates automatically be issued for shares of common stock purchased under the Plan?**

No. Shares of common stock purchased under the Plan will be credited to a participant's account under the Plan and will be shown on the participant's statement of account. Certificates will not be issued unless a participant requests a certificate. Upon request of a participant, certificates for any number of shares up to the total number of whole shares credited to the participant's account under the Plan will be issued. Requests for certificates can be made by contacting the Plan Administrator by any of the means specified in Question No. 3. Any remaining whole shares and any fractional share will continue to be held in the participant's account. Certificates for fractional shares will not be issued under any circumstances.

Shares credited to the account of a participant under the Plan may not be pledged or assigned and any purported pledge or assignment will be void. A participant who wishes to pledge or assign shares credited to his or her account must request that the Plan Administrator issue a certificate for such shares registered in the participant's name.

### **33. Can a certificate be issued in a name other than the participant's?**

Yes. An account will be maintained in each participant's name as shown on the stockholder records at the time the participant enrolls in the Plan. Unless a participant otherwise requests, certificates for whole shares, when issued, will be registered in that name of the participant exactly as it appears on his or her Plan account.

Upon written request to the Plan Administrator, certificates can be registered and issued in a name other than the name in which an account is maintained, provided that the request bears the signature(s) of the participant(s) and the signature(s) is Medallion guaranteed by a commercial bank or member firm of a national securities exchange participating in the Medallion program. This constitutes re-registration of the shares and is subject to compliance with any applicable laws and to the payment by the Plan participant of any applicable stock transfer taxes.

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### **Sale of Shares**

#### **34. Can a participant sell shares credited to his or her account under the Plan?**

Yes. A participant can request the sale of all or a portion of the shares credited to the participant's account under the Plan by contacting the Plan Administrator. As soon as practicable after receipt of a sale request, the Plan Administrator will place a sell order with a brokerage firm selected by the Plan Administrator. The sale generally will be effected within five trading days after the receipt of a sale request. The participant will receive the proceeds of the sale, less a brokerage commission of \$0.15 per share and any transfer tax payable by the seller. The Plan Administrator will send the sale proceeds to the Plan participant by check after the sale transaction has settled. All requests for a sale of shares having an aggregate market value of \$100,000 or more are expected to be submitted in writing to the Plan Administrator. Also, all sale requests within 30 days after a reported change of address are expected to be submitted in writing to the Plan Administrator.

#### **35. What happens if a participant sells or transfers some of the shares for which the participant has elected dividend reinvestment?**

If a participant is reinvesting the cash dividends on all of the shares registered in the participant's name and on all shares of common stock credited to the participant's account under the Plan (i.e., if the participant elected the "Full Dividend Reinvestment" option described in Question No. 10) and the participant disposes of a portion of those shares, regardless of whether the shares are registered in the participant's name or held by the Plan for the account of the participant, the Plan Administrator will continue to reinvest the dividends on the remainder of the participant's shares.

If a participant has elected to receive in cash the dividend on a portion of shares registered in the participant's name and/or held by the Plan for the account of the participant, and the participant disposes of a portion of those shares, the Plan Administrator will continue to distribute in cash the dividend on the number of shares that the participant previously elected to receive in cash and continue to reinvest the dividends received on the balance of the participant's shares. If the number of shares sold or transferred exceeds the number of shares on which dividends are being paid in cash, no dividends will be reinvested.

For example, assume a participant owns 250 shares and directs the Plan Administrator to distribute in cash the dividends on 100 shares and to reinvest the dividends on the balance. If the participant disposed of 50 shares, the Plan Administrator would continue to distribute in cash the dividend on the 100 shares and would reinvest the dividend on the remaining 100 shares. If instead the participant sells 200 shares, then the Plan Administrator will distribute in cash the dividend on all of the participant's remaining shares.

### **Termination of Participation**

#### **36. Can Chesapeake terminate a participant's participation in the Plan?**

Yes. Chesapeake reserves the right to terminate the participation of a participant who, in Chesapeake's opinion, is misusing the Plan or is causing undue expense to Chesapeake.

#### **37. May a participant terminate participation in the Plan?**

Yes. The Plan is entirely voluntary and a participant may request termination of his or her participation in the Plan at any time. If a termination request is received by the Plan Administrator on or prior to the record date for a cash dividend, that dividend and all subsequent dividends on the participant's shares (both registered shares and shares held for the account of the participant under the Plan) will be paid to the participant in cash. If the request is received after the record date for a cash dividend, the dividend, at the election of the Plan Administrator, either will be reinvested for the participant's account on the corresponding dividend payment date or distributed to the withdrawing participant by the Plan Administrator in cash and all dividends thereafter will be paid in cash.

After a termination request is received, any funds for an optional cash investment held by the Plan Administrator will be invested as of the next investment date, unless a request for the return of the funds is received by the Plan Administrator at least two business days prior to the investment date.

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In order to terminate participation in the Plan, a participant must notify the Plan Administrator by accessing his or her Plan account online and following the instructions provided or by notifying the Plan Administrator by telephone or in writing as described in Question No. 3.

### **38. Upon termination, what happens to the shares held for a participant's account?**

If a participant terminates his or her participation in the Plan, generally not later than two business days thereafter, the Plan Administrator will issue to the participant a certificate for the whole number of shares credited to a participant's account under the Plan and will make a cash payment to the participant for any fractional share based on the then current market price of Chesapeake common stock. In lieu of receiving a certificate for the shares held by the Plan, a participant may request, at the time of the submission of his or her notification of termination, that all or a portion of the whole shares credited to his or her account under the Plan be sold. As soon as practicable after receipt of notice of termination and instructions to sell, the Plan Administrator will place a sell order with a brokerage firm selected by the Plan Administrator. The sale generally will be effected within five trading days after the receipt of notice of termination. The participant will receive the proceeds of the sale less a brokerage commission of \$0.15 per share and any applicable transfer taxes.

## **Other Information**

### **39. How is a participant's Plan account handled when a participant dies?**

The Plan Administrator will continue to maintain the participant's Plan account and cash dividends will continue to be reinvested in accordance with the participant's reinvestment election until the Plan Administrator receives certain information from a legal representative of the participant's estate such as a death certificate, official written confirmation regarding the disposition of the estate, and written instructions to withdraw the shares of common stock. No optional cash investments may be made in the name of the participant after the participant's death if the Plan Administrator has received notice of the participant's death. These procedures also will be followed in the event the Plan Administrator is notified that a participant has been adjudicated incompetent.

### **40. If Chesapeake engages in a rights offering, how will the rights on shares of common stock held by the Plan be handled?**

In the event that rights are issued to existing Chesapeake stockholders to subscribe to additional shares of common stock, debentures, or other securities, the Plan Administrator will distribute to Plan participants the rights issued in respect of the shares of Chesapeake common stock held for participants' accounts under the Plan, thereby enabling each Plan participant to exercise or transfer such rights in the same manner and to the same extent as rights issued in respect of any shares registered in the participant's name.

### **41. What happens if Chesapeake pays a stock dividend or effects a stock split?**

Any additional shares of Chesapeake common stock issued as the result of a stock dividend or a stock split in respect of both shares of common stock held by the Plan for the account of a participant and shares registered in the name of a Plan participant, will be credited to the participant's Plan account.

### **42. How will a participant's shares held under the Plan be voted at meetings of stockholders?**

In connection with each meeting of Chesapeake's stockholders, a participant will receive either a paper copy of Chesapeake's proxy statement, together with a proxy card, or a Notice of Internet Availability of Proxy Materials. If a participant receives a proxy card, it will allow a participant to vote his or her shares by telephone, via the Internet or by mail. If a participant receives a Notice of Internet Availability of Chesapeake's Proxy Materials, it will include instructions on how to access Chesapeake's proxy materials and vote his or her shares via the Internet. The Notice will also include instructions on how a participant may request delivery at no cost to him or her of a paper or email copy of Chesapeake's proxy materials.

### **43. May Chesapeake amend or discontinue the Plan?**

Yes. Notwithstanding any other provision of the Plan, Chesapeake reserves the right at any time or from time to time to make modifications to any provisions of the Plan or to suspend or terminate the Plan in its entirety.

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Upon termination of the Plan, any cash held pending investment as an optional cash investment will be returned, a certificate will be issued to the participant for the whole number of shares credited to the participant's account, and a cash payment will be made to the participant for any fractional share credited to the participant's account.

### **44. What is sufficient notice to a participant under the Plan?**

Any notice which by any provision of the Plan is required to be given by the Plan Administrator to a participant shall be in writing and shall be deemed to have been sufficiently given for all purposes if mailed by first class mail, postage prepaid, to the participant at the participant's address as it shall last appear on the Plan Administrator's records. The Plan Administrator will be fully protected in relying on such records.

### **45. Can successor Plan Administrators be named?**

Yes. Chesapeake may replace the Plan Administrator at any time upon written notice to the Plan Administrator and may designate another qualified administrator as successor Plan Administrator for all or a part of the Plan Administrator's functions under the Plan. All participants would be notified of any such change. If Chesapeake changes the Plan Administrator, references in this Prospectus to Plan Administrator shall be deemed to be references to the successor Plan Administrator, unless the context requires otherwise.

### **46. Who bears the risk of fluctuations in the market price of common stock?**

A participant's investment in shares of Chesapeake common stock credited to the participant's account under the Plan is no different from a risk standpoint than an investment in Chesapeake common stock held in certificate form. A participant bears the full risk of loss (and receives the benefit of any gain) occurring by reason of fluctuations in the market price of Chesapeake common stock credited to the participant's Plan account.

### **47. Who governs and interprets the Plan?**

Chesapeake has full authority, in its sole discretion, to adopt such rules and regulations as it shall deem necessary or desirable for operation of the Plan and to interpret the Plan and such rules and regulations.

### **48. Can purchases or sales of common stock under the Plan be curtailed or suspended?**

Yes. Purchases or sales of Chesapeake common stock under the Plan may be curtailed or suspended at any time if such purchases or sales would, in Chesapeake's judgment, contravene or be restricted by applicable law of the rules, regulations, interpretations or orders of the SEC, any other governmental agency, commission or instrumentality, any court or any securities exchange. Neither Chesapeake nor the Plan Administrator shall be accountable, or otherwise liable, for failure of the Plan to make purchases or sales at such times and under such circumstances.

## **Federal Income Tax Consequences**

### **49. What are the Federal income tax consequences of participation in the Plan?**

In general, stockholders who participate in the Plan will be subject to the same Federal income tax consequences, with respect to the dividends payable to them, as nonparticipating stockholders of Chesapeake. A participant will be treated for Federal income tax purposes as having received, on each quarterly dividend payment date, a dividend equal to the full amount of the cash dividend payable for the quarter with respect to the participant's shares of Chesapeake common stock, even if that amount is not actually received in cash, but instead is applied to the purchase of shares of Chesapeake common stock for the participant's account.

In addition, the amount of any brokerage fees paid for a participant by Chesapeake or the Plan Administrator in connection with the purchase of shares will be taxed as a dividend to the participant.

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An employee who makes optional cash investments through payroll deductions is subject to the same Federal income tax consequences as if the employee had received the funds deducted for the purchase of shares of Chesapeake common stock. Thus, an employee's purchase of shares through payroll deductions does not decrease the amount of the employee's taxable income.

The participant's tax basis for shares of Chesapeake common stock purchased with reinvested dividends or optional cash investments under the Plan will depend upon the source of the shares. The tax basis of shares purchased from Chesapeake will be equal to the purchase price of the shares. The tax basis of shares purchased in the open market or in negotiated transactions will be equal to the purchase price of the shares increased by a pro rata share of any brokerage and other fees paid for the participant by Chesapeake. The holding period for shares of common stock acquired pursuant to the Plan will begin on the day following the day the shares are credited to the participant's account. Plan participants are responsible for maintaining a record of the cost basis for shares in certificate form and held for the participant's account under the Plan. In the event the shares are ever sold, whether a participant is required to pay taxes on the sale will depend on the cost basis of the shares. Chesapeake strongly recommends that stockholders keep the last quarterly Plan account statement for each calendar year which details all of that year's Plan activity.

A Plan participant who purchases shares of Chesapeake common stock pursuant to a Request for Waiver at a price that reflects a waiver discount may be treated as having received a dividend distribution equal to the excess of the fair market value of the shares acquired over the purchase price. If such excess is treated as a dividend, the participant's basis in the shares acquired will include the amount of such dividend. Persons making purchases at a waiver discount should consult their tax advisors regarding the tax consequences of such purchases.

A Plan participant will not realize taxable income when he or she receives certificates for whole shares previously credited to the participant's account, either upon the request of the participant for the issuance of a certificate or upon withdrawal from or termination of the Plan. However, participants must generally recognize any gain or loss when whole shares acquired under the Plan are sold or exchanged either by the Plan Administrator at the request of a participant or following the withdrawal of the shares from the Plan by the participant. A participant also must recognize any gain or loss when the participant receives a cash payment for a fractional share credited to the participant's account under the Plan upon withdrawal from or termination of the Plan. The amount of such gain or loss will be the difference between the proceeds received by the participant from the sale of the shares or fractional share and the cost basis of the shares.

THE DISCUSSION ABOVE IS A SUMMARY OF THE IMPORTANT U.S. FEDERAL INCOME TAX CONSEQUENCES OF PARTICIPATION IN THE PLAN. THE SUMMARY IS BASED ON THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, U.S. TREASURY REGULATIONS, ADMINISTRATIVE RULINGS AND COURT DECISIONS, AS IN EFFECT AS OF THE DATE OF THIS DOCUMENT, ALL OF WHICH ARE SUBJECT TO CHANGE AT ANY TIME, POSSIBLY WITH RETROACTIVE EFFECT. THIS SUMMARY IS NOT A COMPLETE DESCRIPTION OF ALL OF THE TAX CONSEQUENCES OF PARTICIPATION IN THE PLAN, FOR EXAMPLE, IT DOES NOT ADDRESS ANY STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF PARTICIPATION. ALL PARTICIPANTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES THAT MAY RESULT FROM THEIR PARTICIPATION IN THE PLAN AND THE SUBSEQUENT SALE OR OTHER TRANSFER BY THEM OF SHARES ACQUIRED PURSUANT TO THE PLAN.

### **50. Is the Plan Administrator required to withhold Federal income tax on the payment of dividends under the Plan?**

Yes. Under current Federal income tax laws, the Plan Administrator (in its capacity as the dividend disbursing agent for Chesapeake) may be required to withhold a certain percentage (called "backup withholding") from the amount of dividends that would otherwise be made available to the participant or reinvested under the Plan. This withholding is required if any participant has failed to furnish a valid taxpayer identification number, failed to report interest or dividends properly on his or her tax return or failed, when required, to certify that the participant is not subject to backup withholding. Should backup withholding be required as to any dividends, the Plan Administrator will endeavor to notify the participant of this requirement when withholding begins. The amount withheld will be deducted from the amount of the dividend and only the remaining amount will be reinvested or paid in cash, as elected by the participant.

If a participant is a nonresident foreign stockholder whose dividends are subject to U.S. Federal income tax withholding, the amount of the tax to be withheld will be deducted from the gross amount of dividends to determine the amount of dividends to reinvest or pay in cash, as elected by the participant.

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**Table of Contents****DESCRIPTION OF SECURITIES**

Chesapeake's authorized capital stock consists of 25,000,000 shares of common stock, par value \$0.4867 per share, and 2,000,000 shares of preferred stock, par value \$0.01 per share.

**Common Stock**

Stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders and are entitled to receive dividends when and as declared by the Board of Directors out of funds legally available therefore for distribution to stockholders and to share ratably in the assets legally available for distribution to stockholders in the event of the liquidation or dissolution, whether voluntary or involuntary, of Chesapeake. Stockholders do not have cumulative voting rights in the election of directors and have no preemptive, subscription or conversion rights. The common stock is not subject to redemption by Chesapeake.

**Preferred Stock**

Shares of preferred stock may be issued by Chesapeake from time to time, by authorization of the Board of Directors and without the necessity of further action or authorization by Chesapeake's stockholders, in one or more series and with such voting powers, designations, preferences and relative, participating, optional or other special rights and qualifications as the Board may, in its discretion, determine, including, but not limited to (a) the distinctive designation of such series and the number of shares to constitute such series; (b) the dividend rights, if any, for such series; (c) the voting power, if any, of shares of such series; (d) the terms and conditions (including price), if any, upon which shares of such stock may be converted into or exchanged for shares of stock of any other class or any other series of the same class or any other securities or assets; (e) the right, if any, of Chesapeake to redeem shares of such series and the terms and conditions of such redemption; (f) the retirement or sinking fund provisions, if any, of shares of such series and the terms and provisions relative to the operation thereof; (g) the amount, if any, that the stockholders of such series shall be entitled to receive in case of a liquidation, dissolution, or winding up of Chesapeake; (h) the limitations and restrictions, if any, upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption, or other acquisition by Chesapeake of, Chesapeake common stock; and (i) the conditions or restrictions, if any, upon the creation of indebtedness or upon the issuance of any additional stock of Chesapeake.

**Certificate of Incorporation Provisions Relating to a Change in Control**

Under Chesapeake's Certificate of Incorporation, the affirmative vote of not less than 75% of the total voting power of all outstanding shares of its capital stock is required to approve a merger or consolidation of Chesapeake with, or the sale of substantially all of its assets or business to, any other corporation (other than a corporation 50% or more of the common stock of which is owned by Chesapeake), if such corporation or its affiliates singly or in the aggregate own or control directly or indirectly 5% or more of the outstanding shares of Chesapeake common stock, unless the transaction is approved by the Board of Directors of Chesapeake prior to the acquisition by such corporation or its affiliates of ownership or control of 5% or more of the outstanding shares of common stock. In addition, Chesapeake's Certificate of Incorporation provides for a classified Board of Directors under which one-third of the members are elected annually for three-year terms. The supermajority voting requirement for certain mergers and consolidations and the classified Board of Directors may have the effect of delaying, deferring or preventing a change in control of Chesapeake.

**Shareholder Rights Plan**

The Board of Directors of Chesapeake has adopted a shareholder rights plan (the "Rights Plan") to protect against abusive or coercive takeover tactics that are contrary to the best interests of our stockholders. To implement the Rights Plan, the Board declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of Chesapeake common stock held of record on September 3, 1999, and directed the issuance of a Right along with each share of Chesapeake common stock issued thereafter for so long as provided for under the terms of the Rights Plan. Unless and until the Rights become exercisable, the Rights trade with Chesapeake's common stock and are evidenced by the certificates for the common stock. The Rights will become exercisable and trade independently from Chesapeake common stock upon either (i) a public announcement that a person or entity has acquired beneficial ownership of 15% or more of the outstanding Chesapeake common stock, other than in a tender or exchange offer for all of the outstanding shares of Chesapeake common stock at a price and on terms that a majority of the disinterested members of the Board of Directors determines to be adequate and in the best interests of Chesapeake and its stockholders (an "Acquiring

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Person”), or (ii) ten days after the announcement or commencement of a tender or exchange offer that would result in a person or entity becoming an Acquiring Person. Each Right, if it becomes exercisable, initially entitles the holder to purchase one-fiftieth of a share (a “Unit”) of Chesapeake Series A Participating Cumulative Preferred Stock, par value \$0.01 per share, at a price of \$105 per Unit, subject to anti-dilution adjustments. Upon a person or entity becoming an Acquiring Person, each Right (other than the Rights held by the Acquiring Person) will become exercisable to purchase a number of shares of Chesapeake common stock having a market value equal to two times the exercise price of the Right. If Chesapeake is acquired in a merger or other business combination transaction by an Acquiring Person, each Right (other than the Rights held by the Acquiring Person) will become exercisable to purchase a number of the acquiring company’s shares of common stock having a market value equal to two times the exercise price of the Right.

The Rights expire on August 20, 2019 unless they are redeemed earlier by Chesapeake at the redemption price of \$0.01 per Right. Chesapeake may redeem the Rights at any time before they become exercisable and thereafter only in limited circumstances.

### **Delaware Anti-Takeover Statute**

Chesapeake is subject to Section 203 of the Delaware General Corporation Law, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) the corporation’s Board of Directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced or (iii) the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of the stockholders of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

### **LEGAL OPINION**

The validity of the shares of Chesapeake common stock offered hereby that are purchased from Chesapeake has been passed upon by Baker & Hostetler LLP, Orlando, Florida.

### **EXPERTS**

The financial statements and schedules as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 and management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2010 incorporated by reference in this Prospectus have been so incorporated in reliance on the reports of ParenteBeard LLC, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

### **WHERE YOU CAN FIND MORE INFORMATION**

Chesapeake is subject to the informational requirements of the Exchange Act and in accordance with the Exchange Act files reports and other information with the SEC. Annual, quarterly and special reports, proxy statements and other information filed by Chesapeake with the SEC may be read and copied at the SEC’s Public Reference Room in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the SEC’s Public Reference Room may be obtained by calling the SEC at 1.800.SEC.0330. Chesapeake’s SEC filings are also accessible online at the SEC’s website at [www.sec.gov](http://www.sec.gov). Information about us, including our filings, is also available on our website at [www.chpk.com](http://www.chpk.com). Unless expressly incorporated by reference, information contained on or made available through our website is not a part of this Prospectus.

### **INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

The SEC allows us to “incorporate by reference” the information contained in documents we file with the SEC, which means that we can disclose important information to you by referring to these documents. The information incorporated by reference is an important part of this Prospectus. Any statement contained in a document that is incorporated by reference in this Prospectus is automatically updated and superseded if information contained in this Prospectus, or information that we later file with the SEC, modifies or replaces that information. Any statement made in this Prospectus or any prospectus



supplement concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed or incorporated by reference any contract,

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agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We incorporate by reference the following documents we filed with the SEC under the Exchange Act:

- (a) Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2010;
- (b) Chesapeake's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011, and September 30, 2011;
- (c) Chesapeake's Current Reports on Form 8-K dated May 4, 2011, May 9, 2011, May 18, 2011, June 29, 2011, August 4, 2011, November 4, 2011, November 15, 2011, November 22, 2011 and December 13, 2011;
- (d) The description of Chesapeake's common stock and preferred stock purchase rights contained in Chesapeake's registration statements filed pursuant to Section 12 of the Exchange Act, including any amendment or reports filed for the purpose of updating the description.

All reports and other documents filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the shares of Chesapeake common stock offered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of the filing of the documents. Any statement contained herein or in an incorporated document shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other incorporated document subsequently filed modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any person to whom a copy of this Prospectus is delivered may obtain without charge, upon written or oral request, a copy of any of the documents incorporated by reference herein, except for the exhibits to such documents. Requests for copies of documents should be directed to the Investor Relations Administrator, Chesapeake Utilities Corporation, P.O. Box 615, Dover, Delaware 19903-0615, telephone numbers: 302.734.6716 or toll-free 888.742.5275.

## **INDEMNIFICATION**

Under Chesapeake's Bylaws, each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact he or she 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, is entitled to indemnification by Chesapeake to the fullest extent permitted by the Delaware General Corporation Law 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. These indemnification rights continue as to such person who has ceased to be a director or officer and inure to the benefit of the person's heirs, executors and administrators. These indemnification rights include 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 is ultimately determined that he or she is not entitled to be indemnified. These indemnification rights under the Bylaws are not exclusive of any other indemnification right which any person may have or acquire under any law, provision of Chesapeake's Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 145 of the Delaware General Corporation Law permits indemnification of a director, officer, employee or agent of a corporation who acted in good faith in a manner he 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 the person's conduct was unlawful. In all proceedings other than those by or in the right of Chesapeake, this indemnification covers expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the indemnified person. In actions brought by or in the right of Chesapeake (such as derivative actions), Section 145 provides for indemnification against expenses only and, unless a court determines otherwise, only in respect of a claim as to which the person is not judged liable to the corporation.

Chesapeake has in effect liability insurance policies covering certain claims against any of its directors or officers by reason of certain breaches of duty, neglect, error, misstatement, omission or other act committed by such person in the person's capacity as director or officer.



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Article Eleven of Chesapeake's Certificate of Incorporation provides that a director of Chesapeake shall not be personally liable to Chesapeake or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for breach of the director's duty of loyalty to Chesapeake or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act is therefore unenforceable.

**Table of Contents****PART II****INFORMATION NOT REQUIRED IN THE PROSPECTUS****ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The estimated expenses of Chesapeake in connection with the issuance and distribution of the securities being registered hereunder are as follows:

Registration fee	\$ 2,700
Printing expenses	3,600
Transfer Agent and Registrar fees	3,200
Accounting fees and expenses	10,000
Legal fees and expenses	4,200
Total	\$23,700

**ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Section 145 of the General Corporation Law of the State of Delaware authorizes indemnification of directors and officers under certain circumstances and subject to certain limitations. Article IX of our Bylaws requires such indemnification to the fullest extent permitted by law.

**ITEM 16. EXHIBITS.**

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
4.1	Rights Agreement, dated as of August 20, 1999, between Chesapeake Utilities Corporation and EquiServe Trust Company, N.A. as Rights Agent, including (i) the form of Certificate of Voting Powers, Designations, Preferences and Rights of Series A Participating Cumulative Preferred Stock attached thereto as Exhibit A, (ii) the form of Rights Certificate attached thereto as Exhibit B, and (iii) the Summary of Rights to Purchase Preferred Shares attached thereto as Exhibit C (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated August 24, 1999, File No. 001-11590).
4.2	First Amendment to Rights Agreement, dated as of September 12, 2008, between Chesapeake Utilities Corporation and Computershare Trust Company, N.A., as successor Rights Agent to BankBoston, N.A. (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated September 12, 2008, File No. 001-11590).
5	Opinion of Baker & Hostetler LLP regarding legality of the securities being offered.
23.1	Consent of Baker & Hostetler LLP (included in Item 5 above).
23.2	Consent of ParenteBeard LLC.
24	Powers of Attorney (included on signature page).

**ITEM 17. UNDERTAKINGS.**

(a) The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement;
  - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

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- (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
  - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; *provided, however,* that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 (§239.13 of this chapter) or Form F-3 (§239.33 of this chapter) and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) (§230.424(b) of this chapter) that is part of the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
  - (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
  - (4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:
    - (i) each prospectus filed by the registrant pursuant to Rule 424(b)(3) (§230.424(b)(3) of this chapter) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
    - (ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) (§230.424(b)(2), (b)(5), or (b)(7) of this chapter) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) (§230.415(a)(1)(i), (vii), or (x) of this chapter) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus if first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.
  - (5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
    - (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);
    - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
    - (iii) The portion of any free writing prospectus relating to the offering containing material information about the

- undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance on Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective; and
- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.



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Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the grounds for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dover, State of Delaware, on the 21st day of December, 2011.

**CHESAPEAKE UTILITIES CORPORATION**

By: /s/ MICHAEL P. MCMASTERS  
**Michael P. McMasters**  
**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

Each person whose signature appears below constitutes and appoints Michael P. McMasters and Beth W. Cooper, and each of them, as his or her true and lawful attorneys-in-fact and agents, each with the power of substitution and resubstitution, for him or her in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as the person might or could do in person, hereby ratifying and confirming what each of said attorneys-in-fact and agents, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

<u>SIGNATURES</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ MICHAEL P. MCMASTERS</u> <b>Michael P. McMasters</b>	President, Chief Executive Officer (principal executive officer) and Director	December 21, 2011
<u>/s/ BETH W. COOPER</u> <b>Beth W. Cooper</b>	Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	December 21, 2011
<u>/s/ RALPH J. ADKINS</u> <b>Ralph J. Adkins</b>	Chairman of the Board and Director	December 21, 2011
<u>/s/ JOHN R. SCHIMKAITIS</u> <b>John R. Schimkaitis</b>	Vice Chairman of the Board and Director	December 21, 2011
<u>/s/ EUGENE H. BAYARD, ESQ.</u> <b>Eugene H. Bayard, Esq.</b>	Director	December 21, 2011
<u>/s/ RICHARD BERNSTEIN</u> <b>Richard Bernstein</b>	Director	December 21, 2011
<u>/s/ THOMAS J. BRESNAN</u> <b>Thomas J. Bresnan</b>	Director	December 21, 2011

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<u>/s/ THOMAS P. HILL, JR.</u> Thomas P. Hill, Jr.	Director	December 21, 2011
<u>/s/ DENNIS S. HUDSON, III.</u> Dennis S. Hudson.	Director	December 21, 2011
<u>/s/ PAUL L. MADDOCK, JR.</u> Paul L. Maddock, Jr.	Director	December 21, 2011
<u>/s/ J. PETER MARTIN</u> J. Peter Martin.	Director	December 21, 2011
<u>/s/ JOSEPH E. MOORE, ESQ.</u> Joseph E. Moore, Esq.	Director	December 21, 2011
<u>/s/ CALVERT A. MORGAN, JR.</u> Calvert A. Morgan, Jr.	Director	December 21, 2011
<u>/s/ DIANNA F. MORGAN</u> Dianna F. Morgan	Director	December 21, 2011

S-3/A 1 d278265ds3a.htm AMENDMENT NO. 1 TO FORM S-3

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As filed with the Securities and Exchange Commission on January 6, 2012

Registration No. 333-178678

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM S-3**

**Amendment No. 1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

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**CHESAPEAKE UTILITIES CORPORATION**  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

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**Delaware**  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

**51-0064146**  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

**909 SILVER LAKE BOULEVARD  
DOVER, DELAWARE 19904  
(302) 734-6799**

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

---

**BETH W. COOPER  
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER  
CHESAPEAKE UTILITIES CORPORATION  
909 SILVER LAKE BOULEVARD  
DOVER, DELAWARE 19904  
(302) 734-6799**

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: Sales are expected to take place from time to time after this Registration Statement becomes effective.

If the only securities being registered on the Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

#### CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE PER UNIT	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, par value \$0.4867 per share (1)	546,343 shares (2)	\$42.79 (3)	\$23,378,016.97	\$2,679.12
Preferred Stock Purchase Rights (4)	-	-	-	-
Total:				\$2,679.12 (5)

- (1) Pursuant to Rule 429 under the Securities Act of 1933, as amended, the Prospectus contained herein also relates to and will be used in connection with the offer and sale of securities covered by Registration Statement No. 333-156192, filed by the Registrant on December 16, 2008. A total of 546,343 shares of common stock are being carried forward from the prior registration statement on which filing fees of \$798.59 were paid.
- (2) Pursuant to Rule 416(a) under the Securities Act of 1933, as amended, the number of shares registered includes such additional number of shares of common stock as are required to prevent dilution resulting from any stock split, stock dividend, recapitalization or similar transaction effected without the receipt of consideration that results in an increase in the number of outstanding shares of common stock.
- (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) based on the average of the high and low prices as reported by the New York Stock Exchange on December 20, 2011.
- (4) The common stock currently includes certain preferred stock purchase rights (collectively, the "Rights") issued pursuant to that certain Rights Agreement, dated as of August 20, 1999 (filed on Exhibit 4.1 to the Current Report on Form 8-K dated August 24, 1999, File No. 001-11590), as amended on September 12, 2008 (filed on Exhibit 4.1 to the Current Report on Form 8-K dated September 12, 2008, File No. 001-11590) (the "Rights Agreement"), between the Registrant and Computershare Trust Company, N.A., a federally chartered trust company, as successor rights agent to BankBoston, N.A. (formerly known as EquiServe Trust Company). Until the occurrence of certain events specified in the Rights Agreement, none of which have occurred, the Rights are not exercisable, are evidenced by the certificate for the common stock and will be transferred along with and only with, and are not severable from, the common stock. The value attributable to the Rights, if any, is reflected in the market price of the common stock. No separate consideration will be payable for the Rights.
- (5) A registration fee in the amount of \$2,679.12 was previously paid in connection with the Registration Statement filed on December 21, 2011.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**



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The information in this Prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This Prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**PROSPECTUS**

SUBJECT TO COMPLETION, DATED  
JANUARY 6, 2012

**CHESAPEAKE**

**DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN**  
**546,343 SHARES OF COMMON STOCK**  
**(PAR VALUE \$0.4867 PER SHARE)**

This Prospectus relates to shares of common stock, par value \$0.4867 per share (including the associated Rights) of Chesapeake Utilities Corporation, a Delaware corporation (“Chesapeake” or the “Corporation”), which may be offered and sold from time to time pursuant to the terms of Chesapeake’s Dividend Reinvestment and Direct Stock Purchase Plan (the “Plan”). Chesapeake common stock is traded on the New York Stock Exchange under the symbol “CPK.”

The material provisions of the Plan are set forth in this Prospectus in a question and answer format. References hereinafter to “common stock” are to Chesapeake common stock (including the associated Rights) and references to a “stockholder” are to individuals or entities that hold Chesapeake common stock. The term “new investor” refers to an individual or entity who is not a stockholder of Chesapeake common stock immediately prior to becoming a participant in the Plan.

The Plan has two components:

- a Dividend Reinvestment component which permits Plan participants to elect to invest all or a portion of the dividends on their shares of Chesapeake common stock, when paid, in additional shares of Chesapeake common stock.
- a Direct Stock Purchase component which permits Plan participants, other registered stockholders and new investors to purchase shares of Chesapeake common stock in a convenient manner without incurring brokerage commissions or transaction/processing fees.

In the event that shares of common stock are purchased under the Plan from Chesapeake, the proceeds will be used by Chesapeake for general corporate purposes.

Investing in our securities involves a high degree of risk. See “**Risk Factors**” beginning on page 5 of this Prospectus for a discussion of information that should be considered in connection with an investment in our securities.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The date of this Prospectus is \_\_\_\_\_, 2012

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You should rely only on the information contained in this Prospectus or to which we refer you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this Prospectus may be accurate only on the date of this Prospectus.

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*This Prospectus and the documents incorporated by reference in this Prospectus contain forward-looking statements. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates" and variations of these words or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, actual results could differ materially from those expressed or forecasted in any forward-looking statements as a result of a variety of factors, including those set forth in "Risk Factors" below and elsewhere in, or incorporated by reference into, this Prospectus. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.*

**PROSPECTUS SUMMARY****Company Overview**

Chesapeake is a diversified utility company engaged in various energy and other businesses. We were incorporated in the State of Delaware in 1947. On October 28, 2009, we completed a merger with Florida Public Utilities Company ("FPU"), pursuant to which FPU became a wholly-owned subsidiary of Chesapeake. We operate regulated energy businesses through our natural gas distribution divisions in Delaware, Maryland and Florida, natural gas and electric distribution operations in Florida through FPU, and natural gas transmission operations on the Delmarva Peninsula and Florida through our subsidiaries, Eastern Shore Natural Gas Company and Peninsula Pipeline Company, Inc., respectively. Our unregulated energy businesses include our natural gas marketing operation through Peninsula Energy Services Company, Inc.; propane distribution operations through Sharp Energy, Inc. and its subsidiary Sharpgas, Inc. and FPU's propane distribution subsidiary, Flo-Gas Corporation; and our propane wholesale marketing operation through Xeron, Inc. We also have an advanced information services subsidiary, BravePoint<sup>®</sup>, Inc. Our principal executive office is located at 909 Silver Lake Boulevard, Dover, Delaware 19904, and our telephone number is (302) 734-6799. Our website address is <http://www.chpk.com>. Unless expressly incorporated by reference, information contained on or made available through our website is not a part of this Prospectus or any accompanying Prospectus supplement.

**Overview of Offering**

This Prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (the "SEC") relating to the offer and sale of up to 546,343 shares of our common stock under our Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"). You should read this Prospectus together with additional information described under the headings, "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."

**Key features of the Plan include:**

- Dividends on both shares of Chesapeake common stock held through the Plan and shares registered in the name of a participant can be fully reinvested or partially reinvested in additional shares of Chesapeake common stock.
- Plan participants may have cash dividends that are not reinvested, deposited directly into a designated account with a U.S. bank or other approved financial institution.
- Plan participants and registered Chesapeake stockholders who are not Plan participants may purchase additional shares of Chesapeake common stock by making optional cash investments through the Direct Stock Purchase component of the Plan in the minimum amount of \$100 per investment, up to a maximum aggregate amount of \$100,000 per calendar year.
- A new investor who does not own shares of Chesapeake common stock may purchase shares through the Direct Stock Purchase component of the Plan by making an initial investment of at least \$500, up to a maximum amount of \$100,000.
- Plan participants, other registered stockholders and new investors may, at Chesapeake's sole discretion, make optional cash investments in excess of the maximum annual limit of \$100,000, if Chesapeake grants a "Request for Waiver."



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- Plan participants may elect to have funds for optional cash investments automatically deducted on a one-time or a monthly basis from a designated account with a U.S. bank or other approved financial institution.
- A stockholder may deposit any or all of the certificates registered in the stockholder's name with the Plan Administrator for safekeeping.
- Employees of Chesapeake and its subsidiaries may participate in the Plan through payroll deductions.

Unless otherwise indicated or unless the context requires otherwise, all references in this Prospectus to "we," "us," "our," the "Corporation," the "Registrant" or "Chesapeake" mean Chesapeake Utilities Corporation and all entities owned or controlled by Chesapeake Utilities Corporation. When we refer to our "Certificate of Incorporation," we mean Chesapeake Utilities Corporation's Restated Certificate of Incorporation, and when we refer to our "Bylaws," we mean Chesapeake Utilities Corporation's Amended and Restated Bylaws.

**RISK FACTORS**

Investing in our securities involves risks. You should carefully consider the risks described under "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010 and in the other documents incorporated by reference into this prospectus (which risk factors are incorporated by reference herein), as well as the other information contained or incorporated by reference in this prospectus, or in any prospectus supplement hereto, before making a decision to invest in our securities. See "Where You Can Find More Information," in the Table of Contents.

**USE OF PROCEEDS**

In the event that shares of common stock are purchased under the Plan, we will use the proceeds for general corporate purposes.

**DETERMINATION OF OFFERING PRICE**

The purchase price per share of common stock purchased from Chesapeake (other than purchases pursuant to Requests for Waiver as defined below in the section titled "Description of the Plan") will be equal to 100% of the average of the high and low sales prices of the common stock, based on the New York Stock Exchange Composite Transactions by 4:00 p.m. Eastern Time as reported on the investment date, but in no event will we sell shares of common stock under the Plan at less than the par value per share.

The price per share of our common stock purchased in the open market or in negotiated transactions will be the weighted average purchase price of all shares of common stock purchased with funds to be invested as of the particular investment date.

**DESCRIPTION OF THE PLAN**

To enroll in the Plan, a stockholder must complete and return to the Plan Administrator an Enrollment Form. A new investor must complete and submit an Initial Enrollment Form. For further enrollment information, please refer to the Eligibility and Enrollment section of this Prospectus beginning with Question No. 5 below or contact the Plan Administrator.

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### **Fees Associated With the Plan**

The following is a list of the principal transactions and services provided to participants in the Plan and the associated fees. Participants are responsible only for those fees not paid by Chesapeake.

Initial Investment	\$10 Enrollment Fee
Dividend Reinvestment	Paid by Chesapeake
Direct Deposit of Dividends	Paid by Chesapeake
Optional Cash Investments	Paid by Chesapeake
Automatic Debiting for Optional Cash Investments	Paid by Chesapeake
Sale of Stock/Termination	Convenience Fee of \$0.15/share (Convenience Fees cover any applicable brokerage commissions the Plan Administrator is required to pay)
Safekeeping	Paid by Chesapeake
Book Transfers	Paid by Chesapeake
Request for Certificate	Paid by Chesapeake
Returned Check or Failed Electronic Payment	\$25 per occurrence

The following is a statement in question and answer format of the provisions of the Plan as approved by our Board of Directors and as currently in effect. The Plan first became effective on April 27, 1989, and has been amended from time to time thereafter through the date of this Prospectus.

### **Purpose**

#### **1. What is the purpose of the Plan?**

The purpose of the Dividend Reinvestment component of the Plan is to provide Chesapeake stockholders with a convenient and economical method of reinvesting cash dividends in additional shares of common stock.

The purpose of the Direct Stock Purchase component of the Plan is to provide Plan participants and registered stockholders who are not participants in the Plan with a convenient and economical method of purchasing additional shares of common stock without payment of brokerage commissions or transaction/processing fees. A new investor may become a stockholder by making an initial minimum investment of \$500. The waiver provision of the Direct Stock Purchase component of the Plan enables Plan participants to make optional cash investments in excess of the maximum annual limit of \$100,000 if Chesapeake grants a "Request for Waiver."

The Plan also provides a stockholder with the opportunity to deposit with the Plan Administrator for safekeeping, certificates for shares of Chesapeake common stock registered in the stockholder's name. Chesapeake may direct the Plan Administrator to purchase shares either in the open market or from Chesapeake to satisfy the requirements of the Plan. Shares purchased from Chesapeake will provide Chesapeake with funds, which it intends to use for general corporate purposes.

### **Advantages**

#### **2. What are some of the advantages of the Plan?**

- Participants have flexibility to reinvest all, a portion or none of their dividends in additional shares of Chesapeake common stock.
- Participants may direct that cash dividends that are not reinvested be deposited into a designated account with a U.S. bank or other approved financial institution.
- No fees or commissions are charged to the participant on purchases of Chesapeake common stock.
- Participants and registered stockholders who are not participants in the Plan can purchase additional shares of Chesapeake common stock by making optional cash investments in the minimum amount of \$100 per investment, up to a maximum aggregate amount of \$100,000 per calendar year.

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- Investors who currently do not own shares of Chesapeake common stock can become Plan participants by making an initial investment of at least \$500, up to a maximum amount of \$100,000.
- Payments for the purchase of shares can be made by check or through the automatic debiting of a designated account with a U.S. bank or other approved financial institution.
- Participants may deposit Chesapeake common stock certificates registered in their name with the Plan Administrator for safekeeping.
- Plan shares can be transferred or given as gifts at no charge to the participant.
- Plan shares can be sold through the Plan Administrator.
- Employees of Chesapeake and its subsidiaries may participate in the Plan through payroll deductions.

## **Administration**

### **3. Who administers the Plan?**

The Plan is administered by Computershare Trust Company, N.A., (the “Plan Administrator” or “Computershare”), a federally chartered trust company (formerly known as EquiServe Trust Company). The Plan Administrator’s responsibilities include effecting Chesapeake common stock purchases on behalf of the Plan, maintaining participants’ accounts, keeping the necessary records, sending statements of account to participants and performing other administrative duties relating to the operation of the Plan. The Plan Administrator’s contact information is shown below.

All questions concerning participation in the Plan or with regard to a participant’s account under the Plan should be directed to the Plan Administrator. The Plan Administrator may be contacted in writing, by telephone or via the Internet as indicated below.

The following address for the Plan Administrator should be used for Plan-related correspondence including, but not limited to, inquiries concerning dividend reinvestment and optional cash investments, assistance with becoming a stockholder through the Direct Stock Purchase component of the Plan, the delivery of stock certificates for the safekeeping of shares and the submission of enrollment forms (except, as more fully described below, where the Enrollment Form is accompanied by a check). **Please note that cash, third party checks, traveler’s checks and money orders will not be accepted.**

Computershare Trust Company, N.A.  
 c/o Chesapeake Utilities Corporation  
 P.O. Box 43078  
 Providence, RI 02940-3078  
 Telephone: 877.498.8865 (U.S. and Canada)  
 781.575.2879 (outside of the U.S. and Canada)

Internet: [www.computershare.com/investor](http://www.computershare.com/investor)

In the case of registered stockholders who are not Plan participants, the Enrollment Form should be sent to the address headed **Optional Cash Investments** below.

All checks representing initial cash investments of new investors, along with the Initial Enrollment Form, should be sent to the address headed **Initial Investments** below.

**Optional Cash Investments**  
 Computershare Trust Company, N.A.  
 c/o Chesapeake Utilities Corporation  
 P.O. Box 6006  
 Carol Stream, IL 60197-6006

**Initial Investments**  
 Computershare Trust Company, N.A.  
 c/o Chesapeake Utilities Corporation  
 P.O. Box 43078  
 Providence, RI 02940-3078

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Checks for both optional cash investments and new investments should be made payable to: “ **Computershare – Chesapeake Utilities Corporation** .”

For information relating to payment, please refer to the Methods of Payment section in this prospectus beginning with Question No. 19.

All shares of Chesapeake common stock purchased under the Plan or deposited for safekeeping will be registered in the name of the Plan Administrator or its nominee as the agent for the Plan participants. As record holder of shares held for participants' accounts, the Plan Administrator will receive and reinvest for the account of a Plan participant dividends both on shares held for the participant by the Plan and on shares held by the participant in certificate form that the participant does not elect to receive in cash. The Plan Administrator will hold all shares of common stock purchased for each participant or deposited for safekeeping under the Plan until directed otherwise by a notice received from the participant. The Plan Administrator also acts as dividend disbursing agent, transfer agent and registrar for Chesapeake.

### **4. What are the limitations on the responsibilities of Chesapeake and the Plan Administrator under the Plan?**

Neither Chesapeake nor the Plan Administrator will be liable for any good faith act or for any good faith omission to act in connection with the administration of the Plan, including, without limitation, with respect to the prices or times at which shares of common stock are purchased or sold under the Plan or any claim or liability arising out of failure to cease reinvestment of dividends for a participant's account upon the participant's death prior to receipt of written notice of death from the appropriate fiduciary.

A participant should recognize that neither Chesapeake nor the Plan Administrator can assure the participant of a profit or protect the participant against a loss from an investment in shares of Chesapeake common stock purchased under the Plan.

## **Eligibility and Enrollment**

### **5. Who is eligible to participate in the Plan?**

Any person or entity, whether or not a stockholder, is eligible to participate in the Plan. A registered Chesapeake stockholder or a person or entity that is not a Chesapeake stockholder can become a participant in the Plan by completing the appropriate Enrollment Form. A person or entity who is the beneficial owner of Chesapeake common stock through an account with a broker, bank or other nominee must make appropriate arrangements with the broker, bank or other nominee to become a participant in the Plan (including the payment of any associated fees that may be charged by the broker, bank or other nominee), or the beneficial owner must become a registered stockholder by having the shares transferred into the beneficial owner's name. To have shares registered in his or her name, a beneficial owner must request the issuance of a certificate for the shares from the broker, bank or other nominee. Alternatively, a beneficial owner may become a participant in the Plan by purchasing additional shares of Chesapeake common stock in accordance with the instructions set forth below for new investors. See Question No. 7. A new investor residing outside of the United States, or its territories and possessions, should determine whether he or she is subject to any governmental regulation that prohibits participation in the Plan.

Chesapeake reserves the right to restrict the participation in the Plan of any participant who, in Chesapeake's opinion, is misusing the Plan or is causing undue expense to Chesapeake.

### **6. How does a registered stockholder become a participant in the Plan?**

A registered stockholder may become a participant in the Plan at any time by completing an Enrollment Form and returning it to the Plan Administrator at the address indicated in Question No. 3. Where the stock to be enrolled in the Plan is registered in more than one name (i.e., joint tenants, etc.), all registered stockholders must sign the Enrollment Form. An Enrollment Form may be obtained at any time by contacting the Plan Administrator. A registered stockholder also may become a participant in the Plan by accessing the Plan Administrator's website, authenticating his or her online account and completing an online Enrollment Form.

***Prospective Plan participants are urged to read this Prospectus in its entirety before deciding to enroll in the Plan.***

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### **7. How does a new investor become a participant in the Plan?**

An investor who is not a stockholder may become a participant in the Plan at any time by completing an Initial Enrollment Form, returning it to the Plan Administrator and making an initial investment of at least \$500, up to a maximum amount of \$100,000. New investors also can make optional cash investments in excess of the \$100,000 maximum if Chesapeake initiates a Request for Waiver. See Question No. 18. Any amounts of less than \$500 tendered for an initial investment will be returned to the investor. Payments for an initial investment can be made either by check or by authorizing the debit of a designated account with a U.S. bank or other approved financial institution as more fully described in Question No. 19. **Cash, traveler's checks, money orders and third-party checks will not be accepted.**

The Initial Enrollment Form may be obtained at any time by contacting the Plan Administrator. A new investor also can become a participant in the Plan by enrolling online at [www.computershare.com/investor](http://www.computershare.com/investor) and following the instructions provided.

***Prospective Plan participants are urged to read this Prospectus in its entirety before making an investment decision to purchase shares of Chesapeake common stock.***

### **8. What are the fees associated with an initial investment by a new investor?**

A new investor will be charged a one-time \$10 enrollment fee to establish a Plan account. The \$10 fee will be subtracted from the payment delivered for the purchase of shares (i.e., a new investor is required to send an initial minimum investment of \$500, from which the \$10 fee will be subtracted, leaving \$490 to be invested).

### **9. When does participation in the Plan by a registered stockholder or new investor become effective?**

A registered stockholder or new investor can, at any time, submit the required Enrollment Form to become a participant in the Plan.

In the case of the enrollment in the Plan of shares owned by a registered stockholder, participation in the Plan will commence upon delivery to the Plan Administrator of the required Enrollment Form.

In the case of the enrollment in the Plan by a new investor, participation in the Plan will commence upon delivery to the Plan Administrator of the required Enrollment Form and the initial cash investment amount followed by the subsequent purchase by the Plan Administrator of the shares of Chesapeake common stock for the participant's account.

When participation in the Plan commences on or prior to any cash dividend record date, the dividends paid on the enrolled shares on the corresponding dividend payment date will be reinvested in accordance with the participant's instructions. If participation commences after a cash dividend record date, the reinvestment of dividends, in accordance with the option selected by the participant, will commence with the next following dividend payment.

## **Dividend Reinvestment Options**

### **10. What dividend reinvestment options are available to participants in the Plan?**

<b>Full Dividend Reinvestment</b>	Directs the Plan Administrator to reinvest automatically, in accordance with the terms of the Plan, dividends on (i) all shares of common stock registered in the participant's name and (ii) all shares of common stock credited to the participant's account under the Plan.
<b>Partial Dividend Reinvestment</b>	Directs the Plan Administrator to distribute to the Plan participant in cash the dividends on that portion of the participant's shares (including both (i) shares of common stock registered in the participant's name and (ii) shares of common stock credited to the participant's account under the Plan) designated by the participant, and to reinvest automatically, in accordance with the terms of the Plan, dividends on the remainder of the participant's shares.
<b>All Cash (no dividend reinvestment)</b>	Directs the Plan Administrator to distribute to the participant in cash the dividends on all of the participant's shares whether registered in the participant's name or credited to the participant's account under the Plan.

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Regardless of the dividend reinvestment option selected, any dividends that a participant elects to receive in cash will be paid to the participant by check or, if the participant so elects, the dividend may be deposited directly into an account designated by the participant with a U.S. bank or other approved financial institution.

Under each of the three dividend reinvestment options, a Plan participant may elect to make optional cash investments at any time or to deposit shares with the Plan Administrator for safekeeping.

### **11. Can a participant change his or her dividend reinvestment option?**

Yes. A participant at any time may change his or her dividend reinvestment election to any of the other dividend reinvestment options by accessing his or her account online at the Plan Administrator's website, by contacting the Plan Administrator or by completing a new Enrollment Form and returning it to the Plan Administrator. Any change received by the Plan Administrator on or prior to the record date for a dividend payment will become effective for that dividend payment.

### **12. When will the dividend reinvestment purchases be made?**

The investment date for the reinvestment of cash dividends is the dividend payment date. If a dividend payment date falls on a weekend, holiday or another day on which the New York Stock Exchange is closed, the investment date will be the next trading day. Shares of common stock acquired from Chesapeake will be purchased on the investment date and will be credited to participants' accounts on that day or as soon as practicable thereafter. The purchase of shares acquired in the open market or in negotiated transactions will begin on the investment date and will be completed as soon as practicable and will be credited to participants' accounts upon the completion of all purchases.

## **Direct Deposit of Cash Dividends**

### **13. May a participant have cash dividends deposited directly into a designated U.S. bank account?**

Yes. Direct deposit of dividends is available to any Plan participant who is receiving cash dividends on all or a portion of his or her shares of Chesapeake common stock, whether registered in the participant's name or credited to the participant's account under the Plan. A Plan participant may elect to have all cash dividends paid by electronic transfer of funds to a designated account with a U.S. bank or other approved financial institution by sending a completed Authorization for Electronic Direct Deposit Form to the Plan Administrator. This form is available by contacting the Plan Administrator. A stockholder may change the designated account or discontinue receiving direct deposit of dividends at any time by contacting the Plan Administrator.

## **Optional Cash Investments up to \$100,000 Per Calendar Year**

### **14. How does the optional cash investment feature work for investments up to \$100,000 per year?**

Both Plan participants and registered stockholders of Chesapeake who are not Plan participants are permitted to purchase additional shares of Chesapeake common stock through optional cash investments. Each optional cash investment must be a minimum of \$100 and, in the aggregate, cannot exceed \$100,000 in any calendar year. Funds tendered that are less than the minimum investment amount or in excess of the maximum annual amount will be returned to the investor. There is no obligation to make an optional cash investment nor is there a requirement that the same amount be invested each time an optional cash investment is made. Payments for optional cash investments can be made by check or by online authorization of a one-time debit or automatic monthly debits from a designated account with a U.S. bank or other approved financial institution as more fully described in Question No. 19.

A registered stockholder who is not a Plan participant at the time of an optional cash investment, as a condition to the investment, must enroll in the Plan by completing an Enrollment Form and returning it to the Plan Administrator at the address indicated in Question No. 3. An Enrollment Form may be obtained by contacting the Plan Administrator. A stockholder also may enroll in the Plan online by accessing the Plan Administrator's website, authenticating his or her online account and completing an online Enrollment Form.

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All shares of common stock purchased with optional cash investments will be credited to a participant's account under the Plan (or in the case of a registered stockholder who prior to the purchase was not a Plan participant, shares will be credited to a newly-established account under the Plan). Thereafter, all dividends on such shares will either be reinvested or paid to the participant in cash, depending on the participant's dividend reinvestment election. See Question No. 10.

**15. When will optional cash investment purchases be made?**

The investment date for optional cash investments (other than purchases pursuant to Requests for Waiver as described below) is the fifth day of each month, except months in which the fifth day falls on a weekend, holiday or another day when the New York Stock Exchange is closed, in which case the investment date will be the next trading day. Funds for optional cash investments received by the Plan Administrator on or before the second business day prior to an investment date will be used to purchase shares of common stock on or beginning on the investment date. Funds for optional cash investments received later than the second business day prior to an investment date will be held by the Plan Administrator until the next monthly investment date, unless a request for the return of the funds is received by the Plan Administrator at least two business days prior to the next monthly investment date.

Shares of common stock acquired from Chesapeake will be purchased on the investment date and will be credited to participants' accounts on that date or as soon as practicable thereafter. The purchase of shares acquired in the open market or in negotiated transactions will begin on the investment date and will be completed as soon as practicable and will be credited to participants' accounts upon the completion of all purchases.

**16. Is interest paid on funds tendered for optional cash investments that are received prior to an investment date?**

No. Under no circumstances will interest be paid on funds for optional cash investments tendered at any time prior to the investment date. Participants are therefore urged to time the transmittal of funds for optional cash investments so that they are received by the Plan Administrator as close as possible to, but no later than two business days in advance of, an investment date.

**17. Under what circumstances may a participant rescind an optional cash investment request?**

Funds for optional cash investments (including payroll deductions) received by the Plan Administrator will be returned to the participant upon request if received by the Plan Administrator at least two business days prior to the next monthly investment date.

**Requests for Waiver for Optional Cash Investment in Excess of \$100,000****18. Under what circumstances may stockholders and new investors make cash investments in excess of \$100,000 per calendar year?**

Optional cash investments in Chesapeake common stock in excess of \$100,000, including initial investments in excess of \$100,000, may be made by current stockholders (including Plan participants) and new investors only if a waiver of the \$100,000 limit is granted by Chesapeake. Chesapeake, in its sole discretion, may elect, from time to time or on a periodic schedule as determined by Chesapeake, to initiate the procedures by which stockholders and new investors can request a waiver of the \$100,000 limit (a "Request for Waiver"). All shares purchased pursuant to a Request for Waiver will be sold by Chesapeake. Chesapeake has established the following procedures governing Requests for Waiver.

*Submitting a Request for Waiver*

On the first business day of each month, Chesapeake will post a prerecorded telephone message (telephone number: 302.734.6019) either (i) announcing that Chesapeake is or is not receiving Requests for Waiver for that month or (ii) providing a specified date for prospective investors to call back for an announcement of whether Chesapeake will be accepting Requests for Waiver for that month. If in the initial or a subsequent announcement Chesapeake indicates that it is receiving Requests for Waiver for that month, the announcement will specify (in each case as more fully described below):

- the commencement date of the pricing period and the number of trading days in the pricing period or the date on which Chesapeake will announce the commencement date and number of trading days in the pricing period;

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- the threshold price, if Chesapeake determines that the proposed sale of shares will be subject to a threshold price, or the date on which Chesapeake will announce whether the proposed sale of shares will be subject to a threshold price;
- whether the offering will include the pricing period extension feature, or the date on which Chesapeake will announce whether the offering will include the pricing period extension feature; and
- whether shares are being offered at a discount to the market price and, if so, what percentage, or the date on which Chesapeake will announce whether shares are being offered at a discount to the market price and, if so, what percentage.

All announcements by Chesapeake regarding Requests for Waiver will be made by a prerecorded telephone message (telephone number: 302.734.6019) that is posted no later than 9:00 a.m. Eastern Time on the day in question.

A stockholder or new investor wishing to purchase common stock on the terms specified by Chesapeake must complete and submit a Request for Waiver form to Chesapeake indicating the dollar amount proposed to be invested. All Requests for Waiver must be received by Chesapeake via facsimile at 302.734.6750 no later than 2:00 p.m. Eastern Time on the third business day prior to the commencement of the pricing period. A Request for Waiver form may be obtained by contacting the Plan Administrator.

Chesapeake will decide whether to accept any or all of the Requests for Waiver received, and will notify any investors whose Requests for Waiver have been accepted, by 9:00 a.m. Eastern Time on the second business day prior to the commencement of the pricing period. Requests for Waiver may be accepted by Chesapeake in whole or in part, in its sole discretion.

The Plan Administrator must receive the funds for the purchase of shares pursuant to an accepted Request for Waiver by wire transfer no later than 2:00 p.m. Eastern Time on the business day prior to the commencement of the pricing period. Wire transfer instructions may be obtained by contacting the Plan Administrator. Once funds are received by the Plan Administrator for the purchase of shares pursuant to a Request for Waiver, the obligation of a stockholder or new investor to purchase the shares becomes legally binding, and the funds will only be returned as directed by Chesapeake. If sufficient funds to cover the full amount of an accepted Request for Waiver are not received by the 2:00 p.m. Eastern Time deadline, Chesapeake may, in its sole discretion, elect either to revoke its acceptance of the Request for Waiver or to deem the Request for Waiver accepted as to the lesser amount of funds. Any funds received in respect of a revoked Request for Waiver will be returned without interest.

If Requests for Waiver are submitted for a total amount greater than the amount Chesapeake is willing to accept for any investment date, Chesapeake may honor the requests received on any basis that Chesapeake, in its sole discretion, considers appropriate. Chesapeake has sole and absolute discretion to accept or reject any or all Requests for Waiver and has no obligation to disclose the reasons for its decision.

Aside from posting recorded telephone messages, neither Chesapeake nor the Plan Administrator is required to provide written or other notice of the decision of Chesapeake to receive the submission of Requests for Waiver or the terms on which shares of common stock are being offered. However, Chesapeake may, if it so elects, provide such further or alternative notices of a decision to receive Requests for Waiver as it determines to be appropriate.

Without limitation on its right to accept or reject Requests for Waiver in its sole discretion, Chesapeake reserves the right to terminate any account or deny any Request for Waiver if Chesapeake believes a purchaser is making excessive optional cash investments through multiple stockholder accounts, is engaging in arbitrage activities or is otherwise engaging in activities under the Plan in a manner which is not in the best interest of Chesapeake or which may cause the participant to be treated as an underwriter under the Federal securities laws.



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### *Pricing Period*

Chesapeake will specify in the prerecorded message announcing whether it is receiving Requests for Waiver for a particular month or in a subsequent prerecorded message for that month the number of consecutive trading days (generally between five and ten days) over which the purchase price of Chesapeake common stock pursuant to accepted Requests for Waiver will be calculated (the “pricing period”). The purchase price of shares will be calculated based upon the unsolicited volume weighted average price, rounded to three decimal places, of Chesapeake common stock obtained from Bloomberg, LP for the trading hours from 9:30 a.m. to 4:00 p.m. Eastern Time (the “trading price”) for each trading day during the designated pricing period, calculated pro-rata on a daily basis. For example, assume Chesapeake has established a ten-day pricing period and has granted a Request for Waiver for an investment of \$100,000. To calculate the number of shares of common stock to be purchased, a hypothetical number of shares will be deemed purchased on each day of the pricing period, which will be determined by dividing a pro rata portion of the entire optional cash investment amount, in this case \$10,000 (1/10 of the entire investment amount), by the trading price on that day. On the last day of the pricing period, the entire optional cash investment amount of \$100,000 will be divided by the total number of hypothetical shares deemed purchased over the ten-day pricing period to establish the purchase price (rounded to three decimal places) for the \$100,000 investment. That purchase price will then be reduced by the amount of the waiver discount (as described below), if any. The actual number of shares purchased from Chesapeake will be calculated by dividing the total investment amount, \$100,000, by the purchase price (or discounted purchase price, if applicable).

The investment date for the purchase of shares of Chesapeake common stock pursuant to a Request for Waiver will be the last day of the pricing period (or, if applicable, the extended pricing period, as described below). On the investment date, the Plan Administrator will apply all funds submitted pursuant to accepted Requests for Waiver (or a lesser amount if, as more fully described below, a threshold price is established, but not satisfied on one or more days during the pricing period) to the purchase of shares of Chesapeake common stock from Chesapeake.

### *Threshold Price*

Chesapeake may, in its sole discretion, establish for any pricing period, a “threshold price” applicable to optional cash investments made pursuant to Requests for Waiver. The threshold price will be the minimum price used for the determination of the purchase price of Chesapeake common stock pursuant to Requests for Waiver during the pricing period. The establishment of a threshold price will be announced either in the prerecorded message announcing the receipt of Requests for Waiver for a particular month or in a subsequent prerecorded message (posted no later than three business days prior to the first day of the pricing period) for that month. Chesapeake will establish the threshold price in its sole discretion, based on any factors that it considers relevant.

If a threshold price is established for any pricing period, the unsolicited volume weighted average price obtained from Bloomberg, LP (rounded to three decimal places), for the trading hours from 9:30 a.m. to 4:00 p.m. Eastern Time, must equal or exceed the threshold price in order to be taken into account in establishing the purchase price of the shares of Chesapeake common stock pursuant to accepted Requests for Waiver. In the event the threshold price is not satisfied for one or more trading days in the pricing period or there are no trades of Chesapeake common stock reported by the New York Stock Exchange for one or more trading days in the pricing period (and assuming Chesapeake has not announced the activation of the optional pricing period extension feature, as described below), then (i) those trading days will be excluded from the pricing period and (ii) the amount to be invested pursuant to each accepted Request for Waiver will be reduced in proportion to the number of days in the pricing period on which the threshold price was not satisfied or there were no trades in Chesapeake common stock reported by the New York Stock Exchange. For example, assume Chesapeake has established a ten-day pricing period and has granted a Request for Waiver for an investment of \$100,000. Further, assume that Chesapeake has established a threshold price of \$24, which is satisfied on eight of the ten days in the pricing period. As a consequence, the pricing period will be reduced to eight days and the amount permitted to be invested pursuant to the Request for Waiver will be reduced to \$80,000. To calculate the number of shares of Chesapeake common stock to be purchased, a hypothetical number of shares will be deemed purchased on each day of the eight days in the pricing period, which will be determined by dividing a pro rata portion of the permitted optional cash investment, in this case \$10,000 (1/8 of the permitted investment amount) by the trading price on that day. On the last day of the pricing period, the permitted optional cash investment amount of \$80,000 will be divided by the total number of hypothetical shares deemed purchased over the eight-day pricing period to establish the purchase price (rounded to three decimal places) for the \$80,000 investment. That purchase price will then be reduced by the amount of the waiver discount (as described below), if any. The actual number of shares purchased from Chesapeake will be calculated by dividing the permitted investment amount, \$80,000, by the purchase price (or discounted purchase price, if applicable).



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The portion of the funds tendered that are not used to purchase shares of Chesapeake common stock will be returned, without interest, to the stockholder or new investor as soon as reasonably practicable after the end of the pricing period.

### *Optional Pricing Period Extension Feature*

Chesapeake may elect in connection with purchases pursuant to Requests for Waiver during any pricing period whether to activate the optional pricing extension feature. Chesapeake will announce whether it has elected to activate this feature in the prerecorded message announcing whether it is receiving Requests for Waiver for a particular month or in a subsequent prerecorded message (posted no later than three business days prior to the first day of the pricing period) for that month.

If activated, the optional pricing period extension feature provides for an extension of the initial pricing period by the number of days (up to a maximum of five days) during the initial pricing period on which the threshold price is not met or there are no reported trades of Chesapeake common stock on the New York Stock Exchange. If the threshold price is satisfied on any day during the extended pricing period, that day will be included as a trading day for the pricing period in lieu of the day on which the threshold price was not met or there were no reported trades. For example, if the pricing period is to be ten trading days, and the threshold price is not satisfied for three out of those ten days, and Chesapeake had previously announced that the optional pricing period extension feature has been activated, then the pricing period will automatically be extended for an additional three trading days, and if the threshold price is satisfied on two of the next three trading days, then those two trading days will be included in the pricing period in lieu of two of the three days on which the threshold price was not met or there are no reported trades of Chesapeake common stock on the New York Stock Exchange. As a result, the purchase price will be based upon the nine trading days of the initial and extended pricing period on which the threshold price was satisfied and 90% of the funds for optional cash investments pursuant to Requests for Waiver will be invested (as opposed to a pricing period of seven days had the optional pricing period extension feature not been activated, which would have resulted in 30% of the amount tendered for investment pursuant to Requests for Waiver being returned to the stockholder or new investor).

Any portion of the funds tendered that are not used to purchase shares of Chesapeake common stock will be returned, without interest, to the stockholder or new investor as soon as reasonably practicable after the end of the extended pricing period.

### *Waiver Discount*

Chesapeake may elect, in its sole discretion, in connection with purchases pursuant to Requests for Waiver during any pricing period whether to establish a "waiver discount" of up to 2% of the purchase price that otherwise would apply. Chesapeake will announce this decision in the prerecorded message announcing whether it is accepting Requests for Waiver for a particular month or at a subsequent prerecorded message (posted no later than three business days prior to the first day of the pricing period) for that month. The waiver discount may vary from month to month, but will apply uniformly to all optional cash investments made pursuant to Requests for Waiver with respect to a particular month.

Chesapeake will determine, in its sole discretion, whether to establish a waiver discount after a review of current market conditions and Chesapeake's current and projected capital needs and any other factors that Chesapeake considers relevant.

## **Methods of Payment**

### **19. What payment methods are accepted by the Plan Administrator?**

Plan participants, registered stockholders who are not Plan participants and new investors purchasing shares of Chesapeake common stock through optional cash investments are required to deliver payment for the shares to the Plan Administrator. **Payments should not be mailed or otherwise delivered to Chesapeake.**

The Plan Administrator will accept the following methods of payment for optional cash investments of \$100,000 or less. Instruction for the submission of payment for investments pursuant to Requests for Waiver has been previously discussed in Question No. 18.

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### *By Check*

The Plan Administrator will accept personal checks in U.S. funds and drawn against a U.S. bank or other approved financial institution for payment of optional cash investments by stockholders and new investors. All such checks should be made payable to "Computershare – Chesapeake Utilities Corporation." Cash, traveler's checks, money orders and third-party checks will not be accepted. If the stockholder making the optional cash investment is not a participant in the Plan, the check must accompany the Enrollment Form, which can be obtained by mail or online, or by calling the Plan Administrator. If a new investor is making an initial investment, the check must accompany the Initial Enrollment Form, which can be obtained by mail or online, or by calling the Plan Administrator. All checks and the appropriate form(s) should be mailed to the Plan Administrator at the address specified in Question No. 3. Checks received without the required accompanying form(s) may be returned by the Plan Administrator.

If a check for an optional cash investment or an initial investment is dishonored, refused or otherwise returned unpaid, any credit of shares of Chesapeake common stock to the participant's account in anticipation of receiving the funds will be reversed and the Plan Administrator may immediately sell any shares purchased for the account of the investor. In addition, the investor will be assessed a fee of \$25 and will be responsible for any other associated costs of the Plan Administrator. This fee and any other associated costs of the Plan Administrator will be deducted from any cash balance in the participant's account or, if sufficient funds are not available, the Plan Administrator may sell shares from the participant's Plan account to satisfy the uncollected balance.

### *By One-Time Debit From a Designated Account*

As an alternative to payment for an optional cash investment by check, a Plan participant or registered stockholder may authorize a one-time debit from a checking or savings account maintained with a U.S. bank or other approved financial institution by accessing his or her account online at the Plan Administrator's website and following the instructions provided. Likewise, a new investor can give online authorization of a one-time debit of a checking or savings account maintained with a U.S. bank or other approved financial institution to fund his or her initial investment. This can be facilitated by accessing the Plan Administrator's website and following the instructions provided.

### *By Automatic Monthly Debits From a Designated Account*

A Plan participant or registered stockholder may authorize optional cash investments on a monthly basis by electing to have funds automatically debited once each month from a checking or savings account maintained with a U.S. bank or other approved financial institution.

A Plan participant can authorize automatic monthly debits by:

- accessing the participant's Plan account online with the Plan Administrator and following the instructions provided; or
- completing and signing a Direct Debit Authorization Form and returning it to the Plan Administrator, together with a voided blank check or savings deposit slip for the bank account from which the funds are to be withdrawn.

A registered stockholder who is not a Plan participant can authorize automatic monthly debits by:

- accessing his or her account online with the Plan Administrator and following the instructions provided; or
- completing an Enrollment Form and a Direct Debit Authorization Form.

Once automatic monthly debits begin, funds will be withdrawn from the participant's designated account on the first of each month or the next business day if the first is not a banking business day. A participant may change the amount debited or discontinue automatic debits by calling the Plan Administrator, completing and submitting to the Plan Administrator a new Direct Debit Authorization Form or by accessing his or her Plan account online and following the instructions provided. To be effective for a particular investment date, the Plan Administrator must receive the new instructions at least six business days before the investment date.

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**Table of Contents***Online Payment*

Plan participants, registered stockholders, or new investors may also make online payments by accessing the Plan Administrator's website, if they choose to purchase shares online. Plan participants and registered stockholders will be required to authenticate his or her online account with the Plan Administrator by accessing the Plan Administrator's website at [www.computershare.com/investor](http://www.computershare.com/investor). New investors must first enroll online with the Plan Administrator at [www.computershare.com/investor](http://www.computershare.com/investor). Once an online account has been established or authenticated, a Plan participant, registered stockholder, or new investor may purchase his or her initial shares or additional shares by following the instructions provided on the Plan Administrator's website. Any questions regarding the online purchase of shares should be directed to the Plan Administrator. See Question No. 3.

**Optional Cash Investments Through Payroll Deductions****20. Can an employee of Chesapeake or its subsidiaries make optional cash investments through payroll deductions?**

Yes. Any employee of Chesapeake or its subsidiaries is eligible to participate in the Plan through payroll deductions. To participate, an employee must obtain a Payroll Deduction Authorization Form from the Human Resources Department. The Payroll Deduction Authorization Form authorizes Chesapeake to deduct the amount specified by the employee (of not less than \$50 per calendar quarter) from the employee's after-tax earnings. Payroll deductions may not at any time exceed the employee's after-tax earnings nor may the total of all optional cash investments (including investments other than by payroll deduction) during a calendar year exceed \$100,000. The initial purchase minimum amount of \$500 and subsequent investment minimum amount of \$100 per investment are waived for employees who participate in the Plan through payroll deductions.

In order to initiate payroll deductions, the Payroll Deduction Authorization Form must be completed and received by the Human Resources Department at least two weeks before the beginning of the first pay period for the commencement of deductions.

**21. When will the payroll deductions be received and invested by the Plan Administrator?**

Chesapeake will submit to the Plan Administrator accumulated payroll deductions for each month no later than two business days prior to the investment date in the next month. See Question No. 15. The Plan Administrator will apply these funds to the purchase of Chesapeake common stock as of the investment date.

**22. Can an employee change the amount of his or her payroll deductions?**

Yes. An employee for whom payroll deductions have commenced may change the amount of his or her deductions by submitting a new Payroll Deduction Authorization Form to the Human Resources Department. The Payroll Deduction Authorization Form must be received at least two weeks before the beginning of the pay period as of which the change in the amount of deduction is to take effect. The change will take effect within two weeks of receipt of the Payroll Deduction Authorization Form by the Human Resources Department.

**23. What happens when a pay period does not coincide with the end of the month?**

All deductions made after the last pay period of a month will be held by Chesapeake and invested with the payroll deductions for the next month. The payroll deductions transferred to the Plan Administrator for any month will consist of the deductions made for each payroll period that ended during the month. No interest will be paid on payroll deductions held for investment.

**24. Can an employee elect to discontinue payroll deductions?**

Yes. An employee for whom payroll deductions are being made may direct that Chesapeake discontinue such deductions by submitting a new Payroll Deduction Authorization Form to the Human Resources Department. The Payroll Deduction Authorization Form must be received at least two weeks before the beginning of the pay period as of which the employee wishes to cease such deductions.

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**Table of Contents****25. May an employee discontinue payroll deductions and still remain in the Plan?**

Yes. A participant who discontinues payroll deductions may retain his or her Plan account. Dividends paid on shares held in the participant's Plan account will continue to be reinvested or paid in cash in accordance with the participant's reinvestment election. See Question No. 10.

**Purchases of Shares Under the Plan****26. What is the source of the shares of common stock purchased under the Plan?**

Shares of Chesapeake common stock acquired under the Plan (other than purchases pursuant to Requests for Waiver) will be purchased by the Plan Administrator, at Chesapeake's discretion, (i) from Chesapeake (in which event the shares will be either authorized but unissued shares or shares held in the treasury of Chesapeake), (ii) in the open market or in one or more negotiated transactions or (iii) a combination of the foregoing. All shares of Chesapeake common stock purchased pursuant to Requests for Waiver will be purchased from Chesapeake.

**27. What will be the price of shares of common stock purchased under the Plan?**

The purchase price per share of Chesapeake common stock purchased from Chesapeake (other than purchases pursuant to Requests for Waiver) will be equal to 100% of the average of the high and low sales prices of the common stock, based on the New York Stock Exchange Composite Transactions by 4:00 p.m. Eastern Time as reported on the investment date, but in no event will shares of common stock be sold by Chesapeake under the Plan at less than the par value per share.

The price per share of Chesapeake common stock purchased in the open market or in negotiated transactions will be the weighted average purchase price of all shares of common stock purchased with funds to be invested as of the particular investment date.

No one will have any authority or power to direct the time or price at which shares for the Plan are purchased, and no one, other than the Plan Administrator will select the broker through or from whom purchases are to be made.

**28. How many shares of common stock will be purchased for participants?**

The number of shares purchased on any particular investment date will depend upon (i) the amount of dividends to be invested or optional cash investments to be made and (ii) the applicable purchase price per share. Each participant's account will be credited with that number of shares (including a fraction computed to six decimal places) equal to the participant's total amount to be invested divided by the applicable purchase price per share.

Because the purchase price of the shares will be based on market conditions existing at the time that investments are made, participants will not know the precise number of shares to be purchased for their accounts either at the time they elect to participate in the Plan or at the time they make optional cash investments.

**Reports and Other Communications to Participants****29. How will a participant be advised of the purchase of shares of common stock?**

Each Plan participant who reinvests dividends through the Plan will receive a quarterly statement following each dividend reinvestment. Each participant who makes optional cash investments also will receive a statement of account for any month in which an optional cash investment is made. A new investor who makes an initial investment also will receive a statement of account for the month in which the investment is made. These statements show any cash dividends reinvested and any investments made, the number of shares purchased, the purchase price, the number of shares held for the participant by the Plan after giving effect to the reported purchases, the number of shares registered in the name of the participant, and a report of each transaction for the current calendar year to date. Statements of account are mailed to participants as soon as practicable after each investment date. For shares acquired in the Plan after January 1, 2011, specific cost information has and will be included in a Plan participant's statement in accordance with applicable law.

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**These statements are a participant's continuing record of the cost of shares of Chesapeake common stock purchased under the Plan, and should be retained.**

### **30. What other communications does a Plan participant receive?**

Each participant will also receive future prospectuses for the Plan and copies of other communications sent to Chesapeake's stockholders, which typically include annual reports, annual meeting notices and proxy statements, as well as other financial materials and income tax information for reporting dividends paid by Chesapeake.

## **Safekeeping of Certificates**

### **31. How does the arrangement for the safekeeping of stock certificates work?**

The safekeeping arrangement for stock certificates gives a participant the opportunity to deposit Chesapeake common stock certificates registered in the participant's name with the Plan Administrator. When the shares are on deposit with the Plan Administrator, the participant is relieved of the safekeeping responsibility. This feature protects the stockholder from the risk of loss, theft or destruction of the certificates. Shares represented by certificates deposited with the Plan Administrator will be credited in book-entry form to the participant's account under the Plan. Dividends on shares deposited with the Plan Administrator will be reinvested or paid in cash in accordance with the participant's dividend payment election. See Question No. 10.

To deposit a stock certificate with the Plan Administrator for safekeeping, a participant must mail the certificate by registered or certified mail, with return receipt requested, or by some other form of traceable mail, and properly insured, to the Plan Administrator at the address set forth in Question No. 3. **DO NOT ENDORSE THE STOCK CERTIFICATE.**

## **Certificates for Shares**

### **32. Will stock certificates automatically be issued for shares of common stock purchased under the Plan?**

No. Shares of common stock purchased under the Plan will be credited to a participant's account under the Plan and will be shown on the participant's statement of account. Certificates will not be issued unless a participant requests a certificate. Upon request of a participant, certificates for any number of shares up to the total number of whole shares credited to the participant's account under the Plan will be issued. Requests for certificates can be made by contacting the Plan Administrator by any of the means specified in Question No. 3. Any remaining whole shares and any fractional share will continue to be held in the participant's account. Certificates for fractional shares will not be issued under any circumstances.

Shares credited to the account of a participant under the Plan may not be pledged or assigned and any purported pledge or assignment will be void. A participant who wishes to pledge or assign shares credited to his or her account must request that the Plan Administrator issue a certificate for such shares registered in the participant's name.

### **33. Can a certificate be issued in a name other than the participant's?**

Yes. An account will be maintained in each participant's name as shown on the stockholder records at the time the participant enrolls in the Plan. Unless a participant otherwise requests, certificates for whole shares, when issued, will be registered in that name of the participant exactly as it appears on his or her Plan account.

Upon written request to the Plan Administrator, certificates can be registered and issued in a name other than the name in which an account is maintained, provided that the request bears the signature(s) of the participant(s) and the signature(s) is Medallion guaranteed by a commercial bank or member firm of a national securities exchange participating in the Medallion program. This constitutes re-registration of the shares and is subject to compliance with any applicable laws and to the payment by the Plan participant of any applicable stock transfer taxes.

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### Sale of Shares

#### **34. Can a participant sell shares credited to his or her account under the Plan?**

Yes. A participant can request the sale of all or a portion of the shares credited to the participant's account under the Plan by contacting the Plan Administrator. As soon as practicable after receipt of a sale request, the Plan Administrator will place a sell order with a brokerage firm selected by the Plan Administrator. The sale generally will be effected within five trading days after the receipt of a sale request. The participant will receive the proceeds of the sale, less a brokerage commission of \$0.15 per share and any transfer tax payable by the seller. The Plan Administrator will send the sale proceeds to the Plan participant by check after the sale transaction has settled. All requests for a sale of shares having an aggregate market value of \$100,000 or more are expected to be submitted in writing to the Plan Administrator. Also, all sale requests within 30 days after a reported change of address are expected to be submitted in writing to the Plan Administrator.

#### **35. What happens if a participant sells or transfers some of the shares for which the participant has elected dividend reinvestment?**

If a participant is reinvesting the cash dividends on all of the shares registered in the participant's name and on all shares of common stock credited to the participant's account under the Plan (i.e., if the participant elected the "Full Dividend Reinvestment" option described in Question No. 10) and the participant disposes of a portion of those shares, regardless of whether the shares are registered in the participant's name or held by the Plan for the account of the participant, the Plan Administrator will continue to reinvest the dividends on the remainder of the participant's shares.

If a participant has elected to receive in cash the dividend on a portion of shares registered in the participant's name and/or held by the Plan for the account of the participant, and the participant disposes of a portion of those shares, the Plan Administrator will continue to distribute in cash the dividend on the number of shares that the participant previously elected to receive in cash and continue to reinvest the dividends received on the balance of the participant's shares. If the number of shares sold or transferred exceeds the number of shares on which dividends are being paid in cash, no dividends will be reinvested.

For example, assume a participant owns 250 shares and directs the Plan Administrator to distribute in cash the dividends on 100 shares and to reinvest the dividends on the balance. If the participant disposed of 50 shares, the Plan Administrator would continue to distribute in cash the dividend on the 100 shares and would reinvest the dividend on the remaining 100 shares. If instead the participant sells 200 shares, then the Plan Administrator will distribute in cash the dividend on all of the participant's remaining shares.

### Termination of Participation

#### **36. Can Chesapeake terminate a participant's participation in the Plan?**

Yes. Chesapeake reserves the right to terminate the participation of a participant who, in Chesapeake's opinion, is misusing the Plan or is causing undue expense to Chesapeake.

#### **37. May a participant terminate participation in the Plan?**

Yes. The Plan is entirely voluntary and a participant may request termination of his or her participation in the Plan at any time. If a termination request is received by the Plan Administrator on or prior to the record date for a cash dividend, that dividend and all subsequent dividends on the participant's shares (both registered shares and shares held for the account of the participant under the Plan) will be paid to the participant in cash. If the request is received after the record date for a cash dividend, the dividend, at the election of the Plan Administrator, either will be reinvested for the participant's account on the corresponding dividend payment date or distributed to the withdrawing participant by the Plan Administrator in cash and all dividends thereafter will be paid in cash.

After a termination request is received, any funds for an optional cash investment held by the Plan Administrator will be invested as of the next investment date, unless a request for the return of the funds is received by the Plan Administrator at least two business days prior to the investment date.



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In order to terminate participation in the Plan, a participant must notify the Plan Administrator by accessing his or her Plan account online and following the instructions provided or by notifying the Plan Administrator by telephone or in writing as described in Question No. 3.

**38. Upon termination, what happens to the shares held for a participant's account?**

If a participant terminates his or her participation in the Plan, generally not later than two business days thereafter, the Plan Administrator will issue to the participant a certificate for the whole number of shares credited to a participant's account under the Plan and will make a cash payment to the participant for any fractional share based on the then current market price of Chesapeake common stock. In lieu of receiving a certificate for the shares held by the Plan, a participant may request, at the time of the submission of his or her notification of termination, that all or a portion of the whole shares credited to his or her account under the Plan be sold. As soon as practicable after receipt of notice of termination and instructions to sell, the Plan Administrator will place a sell order with a brokerage firm selected by the Plan Administrator. The sale generally will be effected within five trading days after the receipt of notice of termination. The participant will receive the proceeds of the sale less a brokerage commission of \$0.15 per share and any applicable transfer taxes.

**Other Information****39. How is a participant's Plan account handled when a participant dies?**

The Plan Administrator will continue to maintain the participant's Plan account and cash dividends will continue to be reinvested in accordance with the participant's reinvestment election until the Plan Administrator receives certain information from a legal representative of the participant's estate such as a death certificate, official written confirmation regarding the disposition of the estate, and written instructions to withdraw the shares of common stock. No optional cash investments may be made in the name of the participant after the participant's death if the Plan Administrator has received notice of the participant's death. These procedures also will be followed in the event the Plan Administrator is notified that a participant has been adjudicated incompetent.

**40. If Chesapeake engages in a rights offering, how will the rights on shares of common stock held by the Plan be handled?**

In the event that rights are issued to existing Chesapeake stockholders to subscribe to additional shares of common stock, debentures, or other securities, the Plan Administrator will distribute to Plan participants the rights issued in respect of the shares of Chesapeake common stock held for participants' accounts under the Plan, thereby enabling each Plan participant to exercise or transfer such rights in the same manner and to the same extent as rights issued in respect of any shares registered in the participant's name.

**41. What happens if Chesapeake pays a stock dividend or effects a stock split?**

Any additional shares of Chesapeake common stock issued as the result of a stock dividend or a stock split in respect of both shares of common stock held by the Plan for the account of a participant and shares registered in the name of a Plan participant, will be credited to the participant's Plan account.

**42. How will a participant's shares held under the Plan be voted at meetings of stockholders?**

In connection with each meeting of Chesapeake's stockholders, a participant will receive either a paper copy of Chesapeake's proxy statement, together with a proxy card, or a Notice of Internet Availability of Proxy Materials. If a participant receives a proxy card, it will allow a participant to vote his or her shares by telephone, via the Internet or by mail. If a participant receives a Notice of Internet Availability of Chesapeake's Proxy Materials, it will include instructions on how to access Chesapeake's proxy materials and vote his or her shares via the Internet. The Notice will also include instructions on how a participant may request delivery at no cost to him or her of a paper or email copy of Chesapeake's proxy materials.

**43. May Chesapeake amend or discontinue the Plan?**

Yes. Notwithstanding any other provision of the Plan, Chesapeake reserves the right at any time or from time to time to make modifications to any provisions of the Plan or to suspend or terminate the Plan in its entirety.

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Upon termination of the Plan, any cash held pending investment as an optional cash investment will be returned, a certificate will be issued to the participant for the whole number of shares credited to the participant's account, and a cash payment will be made to the participant for any fractional share credited to the participant's account.

**44. What is sufficient notice to a participant under the Plan?**

Any notice which by any provision of the Plan is required to be given by the Plan Administrator to a participant shall be in writing and shall be deemed to have been sufficiently given for all purposes if mailed by first class mail, postage prepaid, to the participant at the participant's address as it shall last appear on the Plan Administrator's records. The Plan Administrator will be fully protected in relying on such records.

**45. Can successor Plan Administrators be named?**

Yes. Chesapeake may replace the Plan Administrator at any time upon written notice to the Plan Administrator and may designate another qualified administrator as successor Plan Administrator for all or a part of the Plan Administrator's functions under the Plan. All participants would be notified of any such change. If Chesapeake changes the Plan Administrator, references in this Prospectus to Plan Administrator shall be deemed to be references to the successor Plan Administrator, unless the context requires otherwise.

**46. Who bears the risk of fluctuations in the market price of common stock?**

A participant's investment in shares of Chesapeake common stock credited to the participant's account under the Plan is no different from a risk standpoint than an investment in Chesapeake common stock held in certificate form. A participant bears the full risk of loss (and receives the benefit of any gain) occurring by reason of fluctuations in the market price of Chesapeake common stock credited to the participant's Plan account.

**47. Who governs and interprets the Plan?**

Chesapeake has full authority, in its sole discretion, to adopt such rules and regulations as it shall deem necessary or desirable for operation of the Plan and to interpret the Plan and such rules and regulations.

**48. Can purchases or sales of common stock under the Plan be curtailed or suspended?**

Yes. Purchases or sales of Chesapeake common stock under the Plan may be curtailed or suspended at any time if such purchases or sales would, in Chesapeake's judgment, contravene or be restricted by applicable law of the rules, regulations, interpretations or orders of the SEC, any other governmental agency, commission or instrumentality, any court or any securities exchange. Neither Chesapeake nor the Plan Administrator shall be accountable, or otherwise liable, for failure of the Plan to make purchases or sales at such times and under such circumstances.

**Federal Income Tax Consequences****49. What are the Federal income tax consequences of participation in the Plan?**

In general, stockholders who participate in the Plan will be subject to the same Federal income tax consequences, with respect to the dividends payable to them, as nonparticipating stockholders of Chesapeake. A participant will be treated for Federal income tax purposes as having received, on each quarterly dividend payment date, a dividend equal to the full amount of the cash dividend payable for the quarter with respect to the participant's shares of Chesapeake common stock, even if that amount is not actually received in cash, but instead is applied to the purchase of shares of Chesapeake common stock for the participant's account.

In addition, the amount of any brokerage fees paid for a participant by Chesapeake or the Plan Administrator in connection with the purchase of shares will be taxed as a dividend to the participant.

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An employee who makes optional cash investments through payroll deductions is subject to the same Federal income tax consequences as if the employee had received the funds deducted for the purchase of shares of Chesapeake common stock. Thus, an employee's purchase of shares through payroll deductions does not decrease the amount of the employee's taxable income.

The participant's tax basis for shares of Chesapeake common stock purchased with reinvested dividends or optional cash investments under the Plan will depend upon the source of the shares. The tax basis of shares purchased from Chesapeake will be equal to the purchase price of the shares. The tax basis of shares purchased in the open market or in negotiated transactions will be equal to the purchase price of the shares increased by a pro rata share of any brokerage and other fees paid for the participant by Chesapeake. The holding period for shares of common stock acquired pursuant to the Plan will begin on the day following the day the shares are credited to the participant's account. Plan participants are responsible for maintaining a record of the cost basis for shares in certificate form and held for the participant's account under the Plan. In the event the shares are ever sold, whether a participant is required to pay taxes on the sale will depend on the cost basis of the shares. Chesapeake strongly recommends that stockholders keep the last quarterly Plan account statement for each calendar year which details all of that year's Plan activity.

A Plan participant who purchases shares of Chesapeake common stock pursuant to a Request for Waiver at a price that reflects a waiver discount may be treated as having received a dividend distribution equal to the excess of the fair market value of the shares acquired over the purchase price. If such excess is treated as a dividend, the participant's basis in the shares acquired will include the amount of such dividend. Persons making purchases at a waiver discount should consult their tax advisors regarding the tax consequences of such purchases.

A Plan participant will not realize taxable income when he or she receives certificates for whole shares previously credited to the participant's account, either upon the request of the participant for the issuance of a certificate or upon withdrawal from or termination of the Plan. However, participants must generally recognize any gain or loss when whole shares acquired under the Plan are sold or exchanged either by the Plan Administrator at the request of a participant or following the withdrawal of the shares from the Plan by the participant. A participant also must recognize any gain or loss when the participant receives a cash payment for a fractional share credited to the participant's account under the Plan upon withdrawal from or termination of the Plan. The amount of such gain or loss will be the difference between the proceeds received by the participant from the sale of the shares or fractional share and the cost basis of the shares.

THE DISCUSSION ABOVE IS A SUMMARY OF THE IMPORTANT U.S. FEDERAL INCOME TAX CONSEQUENCES OF PARTICIPATION IN THE PLAN. THE SUMMARY IS BASED ON THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, U.S. TREASURY REGULATIONS, ADMINISTRATIVE RULINGS AND COURT DECISIONS, AS IN EFFECT AS OF THE DATE OF THIS DOCUMENT, ALL OF WHICH ARE SUBJECT TO CHANGE AT ANY TIME, POSSIBLY WITH RETROACTIVE EFFECT. THIS SUMMARY IS NOT A COMPLETE DESCRIPTION OF ALL OF THE TAX CONSEQUENCES OF PARTICIPATION IN THE PLAN, FOR EXAMPLE, IT DOES NOT ADDRESS ANY STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF PARTICIPATION. ALL PARTICIPANTS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES THAT MAY RESULT FROM THEIR PARTICIPATION IN THE PLAN AND THE SUBSEQUENT SALE OR OTHER TRANSFER BY THEM OF SHARES ACQUIRED PURSUANT TO THE PLAN.

### **50. Is the Plan Administrator required to withhold Federal income tax on the payment of dividends under the Plan?**

Yes. Under current Federal income tax laws, the Plan Administrator (in its capacity as the dividend disbursing agent for Chesapeake) may be required to withhold a certain percentage (called "backup withholding") from the amount of dividends that would otherwise be made available to the participant or reinvested under the Plan. This withholding is required if any participant has failed to furnish a valid taxpayer identification number, failed to report interest or dividends properly on his or her tax return or failed, when required, to certify that the participant is not subject to backup withholding. Should backup withholding be required as to any dividends, the Plan Administrator will endeavor to notify the participant of this requirement when withholding begins. The amount withheld will be deducted from the amount of the dividend and only the remaining amount will be reinvested or paid in cash, as elected by the participant.

If a participant is a nonresident foreign stockholder whose dividends are subject to U.S. Federal income tax withholding, the amount of the tax to be withheld will be deducted from the gross amount of dividends to determine the amount of dividends to reinvest or pay in cash, as elected by the participant.

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**Table of Contents****DESCRIPTION OF SECURITIES**

Chesapeake's authorized capital stock consists of 25,000,000 shares of common stock, par value \$0.4867 per share, and 2,000,000 shares of preferred stock, par value \$0.01 per share.

**Common Stock**

Stockholders are entitled to one vote for each share held of record on all matters submitted to a vote of stockholders and are entitled to receive dividends when and as declared by the Board of Directors out of funds legally available therefore for distribution to stockholders and to share ratably in the assets legally available for distribution to stockholders in the event of the liquidation or dissolution, whether voluntary or involuntary, of Chesapeake. Stockholders do not have cumulative voting rights in the election of directors and have no preemptive, subscription or conversion rights. The common stock is not subject to redemption by Chesapeake. Each outstanding share of our common stock currently has associated with it one preferred stock purchase Right issued under Chesapeake's shareholder rights plan, which is summarized below.

**Preferred Stock**

Shares of preferred stock may be issued by Chesapeake from time to time, by authorization of the Board of Directors and without the necessity of further action or authorization by Chesapeake's stockholders, in one or more series and with such voting powers, designations, preferences and relative, participating, optional or other special rights and qualifications as the Board may, in its discretion, determine, including, but not limited to (a) the distinctive designation of such series and the number of shares to constitute such series; (b) the dividend rights, if any, for such series; (c) the voting power, if any, of shares of such series; (d) the terms and conditions (including price), if any, upon which shares of such stock may be converted into or exchanged for shares of stock of any other class or any other series of the same class or any other securities or assets; (e) the right, if any, of Chesapeake to redeem shares of such series and the terms and conditions of such redemption; (f) the retirement or sinking fund provisions, if any, of shares of such series and the terms and provisions relative to the operation thereof; (g) the amount, if any, that the stockholders of such series shall be entitled to receive in case of a liquidation, dissolution, or winding up of Chesapeake; (h) the limitations and restrictions, if any, upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption, or other acquisition by Chesapeake of, Chesapeake common stock; and (i) the conditions or restrictions, if any, upon the creation of indebtedness or upon the issuance of any additional stock of Chesapeake.

**Certificate of Incorporation Provisions Relating to a Change in Control**

Under Chesapeake's Certificate of Incorporation, the affirmative vote of not less than 75% of the total voting power of all outstanding shares of its capital stock is required to approve a merger or consolidation of Chesapeake with, or the sale of substantially all of its assets or business to, any other corporation (other than a corporation 50% or more of the common stock of which is owned by Chesapeake), if such corporation or its affiliates singly or in the aggregate own or control directly or indirectly 5% or more of the outstanding shares of Chesapeake common stock, unless the transaction is approved by the Board of Directors of Chesapeake prior to the acquisition by such corporation or its affiliates of ownership or control of 5% or more of the outstanding shares of common stock. In addition, Chesapeake's Certificate of Incorporation provides for a classified Board of Directors under which one-third of the members are elected annually for three-year terms. The supermajority voting requirement for certain mergers and consolidations and the classified Board of Directors may have the effect of delaying, deferring or preventing a change in control of Chesapeake.

**Shareholder Rights Plan**

The Board of Directors of Chesapeake has adopted a shareholder rights plan (the "Rights Plan") to protect against abusive or coercive takeover tactics that are contrary to the best interests of our stockholders. To implement the Rights Plan, the Board declared a dividend of one preferred stock purchase Right for each outstanding share of Chesapeake common stock held of record on September 3, 1999, and directed the issuance of a Right along with each share of Chesapeake common stock issued thereafter for so long as provided for under the terms of the Rights Plan. Unless and until the Rights become exercisable, the Rights trade with Chesapeake's common stock and are evidenced by the certificates for the common stock. The Rights will become exercisable and trade independently from Chesapeake common stock upon either (i) a public announcement that a person or entity has acquired beneficial ownership of 15% or more of the outstanding Chesapeake common stock, other than in a tender or exchange offer for all of the outstanding shares of Chesapeake common stock at a price and on terms that a majority of the disinterested members of the Board of Directors determines to be adequate and in the best interests of Chesapeake and its stockholders (an "Acquiring



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Person”), or (ii) ten days after the announcement or commencement of a tender or exchange offer that would result in a person or entity becoming an Acquiring Person. Each Right, if it becomes exercisable, initially entitles the holder to purchase one-fiftieth of a share (a “Unit”) of Chesapeake Series A Participating Cumulative Preferred Stock, par value \$0.01 per share, at a price of \$105 per Unit, subject to anti-dilution adjustments. Upon a person or entity becoming an Acquiring Person, each Right (other than the Rights held by the Acquiring Person) will become exercisable to purchase a number of shares of Chesapeake common stock having a market value equal to two times the exercise price of the Right. If Chesapeake is acquired in a merger or other business combination transaction by an Acquiring Person, each Right (other than the Rights held by the Acquiring Person) will become exercisable to purchase a number of the acquiring company’s shares of common stock having a market value equal to two times the exercise price of the Right.

The Rights expire on August 20, 2019 unless they are redeemed earlier by Chesapeake at the redemption price of \$0.01 per Right. Chesapeake may redeem the Rights at any time before they become exercisable and thereafter only in limited circumstances.

**Delaware Anti-Takeover Statute**

Chesapeake is subject to Section 203 of the Delaware General Corporation Law, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder, unless: (i) the corporation’s Board of Directors approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder, (ii) upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced or (iii) the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of the stockholders of at least 66 2/3% of the outstanding voting stock that is not owned by the interested stockholder.

**LEGAL OPINION**

The validity of the shares of Chesapeake common stock offered hereby that are purchased from Chesapeake has been passed upon by Baker & Hostetler LLP, Orlando, Florida.

**EXPERTS**

The financial statements and schedules as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 and management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2010 incorporated by reference in this Prospectus have been so incorporated in reliance on the reports of ParenteBeard LLC, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

**WHERE YOU CAN FIND MORE INFORMATION**

Chesapeake is subject to the informational requirements of the Exchange Act and in accordance with the Exchange Act files reports and other information with the SEC. Annual, quarterly and special reports, proxy statements and other information filed by Chesapeake with the SEC may be read and copied at the SEC’s Public Reference Room in Washington, D.C. at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the SEC’s Public Reference Room may be obtained by calling the SEC at 1.800.SEC.0330. Chesapeake’s SEC filings are also accessible online at the SEC’s website at [www.sec.gov](http://www.sec.gov). Information about us, including our filings, is also available on our website at [www.chpk.com](http://www.chpk.com). Unless expressly incorporated by reference, information contained on or made available through our website is not a part of this Prospectus.

**INCORPORATION OF CERTAIN INFORMATION BY REFERENCE**

The SEC allows us to “incorporate by reference” the information contained in documents we file with the SEC, which means that we can disclose important information to you by referring to these documents. The information incorporated by reference is an important part of this Prospectus. Any statement contained in a document that is incorporated by reference in this

Prospectus is automatically updated and superseded if information contained in this Prospectus, or information that we later file with the SEC, modifies or replaces that information. Any statement made in this Prospectus or any prospectus supplement concerning the contents of any contract, agreement or other document is only a summary of the actual contract, agreement or other document. If we have filed or incorporated by reference any contract,

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agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the document or matter involved. Each statement regarding a contract, agreement or other document is qualified in its entirety by reference to the actual document.

We incorporate by reference the following documents we filed with the SEC under the Exchange Act:

- (a) Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2010;
- (b) Chesapeake's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011, and September 30, 2011;
- (c) Chesapeake's Current Reports on Form 8-K dated January 21, 2011, May 4, 2011, May 9, 2011, May 18, 2011, June 29, 2011, August 4, 2011, November 4, 2011, November 15, 2011, November 22, 2011, December 13, 2011, and December 22, 2011;
- (d) The description of Chesapeake's common stock and preferred stock purchase rights contained in Chesapeake's registration statements filed pursuant to Section 12 of the Exchange Act, including any amendment or reports filed for the purpose of updating the description.

All reports and other documents filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (i) on or after the date of the filing of this registration statement and prior to its effectiveness and (ii) on or after the effective date of this registration statement and prior to the sale of all shares of common stock to which this Prospectus relates or the termination of the offering of the shares of Chesapeake common stock offered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of the filing of the documents. Any statement contained herein or in an incorporated document shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other incorporated document subsequently filed modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any person to whom a copy of this Prospectus is delivered may obtain without charge, upon written or oral request, a copy of any of the documents incorporated by reference herein, except for the exhibits to such documents. Requests for copies of documents should be directed to the Investor Relations Administrator, Chesapeake Utilities Corporation, P.O. Box 615, Dover, Delaware 19903-0615, telephone numbers: 302.734.6716 or toll-free 888.742.5275.

## **INDEMNIFICATION**

Under Chesapeake's Bylaws, each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding by reason of the fact he or she 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, is entitled to indemnification by Chesapeake to the fullest extent permitted by the Delaware General Corporation Law 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. These indemnification rights continue as to such person who has ceased to be a director or officer and inure to the benefit of the person's heirs, executors and administrators. These indemnification rights include 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 is ultimately determined that he or she is not entitled to be indemnified. These indemnification rights under the Bylaws are not exclusive of any other indemnification right which any person may have or acquire under any law, provision of Chesapeake's Certificate of Incorporation, Bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

Section 145 of the Delaware General Corporation Law permits indemnification of a director, officer, employee or agent of a corporation who acted in good faith in a manner he 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 the person's conduct was unlawful. In all proceedings other than those by or in the right of Chesapeake, this indemnification covers expenses (including attorneys' fees), judgments, fines, and amounts paid in settlement actually and reasonably incurred by the indemnified person. In actions brought by or in the right of Chesapeake (such as derivative actions), Section 145 provides for indemnification against expenses only and, unless a court determines otherwise, only in respect of a claim as to which the person is not judged liable to the corporation.



Chesapeake has in effect liability insurance policies covering certain claims against any of its directors or officers by reason of certain breaches of duty, neglect, error, misstatement, omission or other act committed by such person in the person's capacity as director or officer.

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Article Eleven of Chesapeake's Certificate of Incorporation provides that a director of Chesapeake shall not be personally liable to Chesapeake or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for breach of the director's duty of loyalty to Chesapeake or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act is therefore unenforceable.

Table of Contents**PART II****INFORMATION NOT REQUIRED IN THE PROSPECTUS****ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The estimated expenses of Chesapeake in connection with the issuance and distribution of the securities being registered hereunder are as follows:

Registration fee	\$ 2,700
Printing expenses	3,600
Transfer Agent and Registrar fees	3,200
Accounting fees and expenses	10,000
Legal fees and expenses	4,200
Total	\$23,700

**ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Section 145 of the General Corporation Law of the State of Delaware authorizes indemnification of directors and officers under certain circumstances and subject to certain limitations. Article IX of our Bylaws requires such indemnification to the fullest extent permitted by law.

**ITEM 16. EXHIBITS.**

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
4.1	Rights Agreement, dated as of August 20, 1999, between Chesapeake Utilities Corporation and EquiServe Trust Company, N.A. as Rights Agent, including (i) the form of Certificate of Voting Powers, Designations, Preferences and Rights of Series A Participating Cumulative Preferred Stock attached thereto as Exhibit A, (ii) the form of Rights Certificate attached thereto as Exhibit B, and (iii) the Summary of Rights to Purchase Preferred Shares attached thereto as Exhibit C (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated August 24, 1999, File No. 001-11590).
4.2	First Amendment to Rights Agreement, dated as of September 12, 2008, between Chesapeake Utilities Corporation and Computershare Trust Company, N.A., as successor Rights Agent to BankBoston, N.A. (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated September 12, 2008, File No. 001-11590).
5	Opinion of Baker & Hostetler LLP regarding legality of the securities being offered.
23.1	Consent of Baker & Hostetler LLP (included in Item 5 above).
23.2	Consent of ParenteBeard LLC.
24	Powers of Attorney (incorporated by reference to Registration Statement on Form S-3 (Registration No. 333-178678) on December 21, 2011).

**ITEM 17. UNDERTAKINGS.**

(a) The undersigned registrant hereby undertakes:

- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement;
  - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

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- (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
  - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; *provided, however,* that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 (§239.13 of this chapter) or Form F-3 (§239.33 of this chapter) and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) (§230.424(b) of this chapter) that is part of the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:
- (i) each prospectus filed by the registrant pursuant to Rule 424(b)(3) (§230.424(b)(3) of this chapter) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
  - (ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) (§230.424(b)(2), (b)(5), or (b)(7) of this chapter) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) (§230.415(a)(1)(i), (vii), or (x) of this chapter) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.
- (5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);
  - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
  - (iii) The portion of any free writing prospectus relating to the offering containing material information about the

- undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

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(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance on Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective; and
- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the grounds for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dover, State of Delaware, on the 6th day of January, 2012.

**CHESAPEAKE UTILITIES CORPORATION**

By:           /s/ MICHAEL P. MCMASTERS            
**Michael P. McMasters**  
**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<i>SIGNATURES</i>	<i>TITLE</i>	<i>DATE</i>
<u>          /s/ MICHAEL P. MCMASTERS          </u> <b>Michael P. McMasters</b>	President, Chief Executive Officer (principal executive officer) and Director	January 6, 2012
<u>          /s/ BETH W. COOPER          </u> <b>Beth W. Cooper</b>	Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	January 6, 2012
<u>          *          </u> <b>Ralph J. Adkins</b>	Chairman of the Board and Director	January 6, 2012
<u>          *          </u> <b>John R. Schimkaitis</b>	Vice Chairman of the Board and Director	January 6, 2012
<u>          *          </u> <b>Eugene H. Bayard, Esq.</b>	Director	January 6, 2012
<u>          *          </u> <b>Richard Bernstein</b>	Director	January 6, 2012
<u>          *          </u> <b>Thomas J. Bresnan</b>	Director	January 6, 2012

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*	Director	January 6, 2012
<b>Thomas P. Hill, Jr.</b>		
*	Director	January 6, 2012
<b>Dennis S. Hudson.</b>		
*	Director	January 6, 2012
<b>Paul L. Maddock, Jr.</b>		
*	Director	January 6, 2012
<b>J. Peter Martin.</b>		
*	Director	January 6, 2012
<b>Joseph E. Moore, Esq.</b>		
*	Director	January 6, 2012
<b>Calvert A. Morgan, Jr.</b>		
*	Director	January 6, 2012
<b>Dianna F. Morgan</b>		

\* By: /s/ BETH W. COOPER  
Beth W. Cooper, Attorney-in-Fact



S-3/A 1 d278265ds3a.htm AMENDMENT NO. 2 TO FORM S-3

As filed with the Securities and Exchange Commission on January 10, 2012

Registration No. 333-178678

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM S-3**

**Amendment No. 2  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**CHESAPEAKE UTILITIES CORPORATION**  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

**Delaware**  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

**51-0064146**  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

**909 SILVER LAKE BOULEVARD  
DOVER, DELAWARE 19904  
(302) 734-6799**

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

**BETH W. COOPER  
SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER  
CHESAPEAKE UTILITIES CORPORATION  
909 SILVER LAKE BOULEVARD  
DOVER, DELAWARE 19904  
(302) 734-6799**

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER OF AGENT FOR SERVICE)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO PUBLIC: Sales are expected to take place from time to time after this Registration Statement becomes effective.

If the only securities being registered on the Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, please check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**EXPLANATORY NOTE**

This Amendment No. 2 to the Registration Statement on Form S-3/A (File No. 333-178678) of Chesapeake Utilities Corporation is being filed for the purpose of filing an amended Exhibit 5. This Amendment No. 2 does not modify any provision of the preliminary prospectus contained in Part I of the Registration Statement.

**PART II****INFORMATION NOT REQUIRED IN THE PROSPECTUS****ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.**

The estimated expenses of Chesapeake in connection with the issuance and distribution of the securities being registered hereunder are as follows:

Registration fee	\$ 2,700
Printing expenses	3,600
Transfer Agent and Registrar fees	3,200
Accounting fees and expenses	10,000
Legal fees and expenses	4,200
Total	\$23,700

**ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Section 145 of the General Corporation Law of the State of Delaware authorizes indemnification of directors and officers under certain circumstances and subject to certain limitations. Article IX of our Bylaws requires such indemnification to the fullest extent permitted by law.

**ITEM 16. EXHIBITS.**

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
4.1	Rights Agreement, dated as of August 20, 1999, between Chesapeake Utilities Corporation and EquiServe Trust Company, N.A. as Rights Agent, including (i) the form of Certificate of Voting Powers, Designations, Preferences and Rights of Series A Participating Cumulative Preferred Stock attached thereto as Exhibit A, (ii) the form of Rights Certificate attached thereto as Exhibit B, and (iii) the Summary of Rights to Purchase Preferred Shares attached thereto as Exhibit C (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated August 24, 1999, File No. 001-11590).
4.2	First Amendment to Rights Agreement, dated as of September 12, 2008, between Chesapeake Utilities Corporation and Computershare Trust Company, N.A., as successor Rights Agent to BankBoston, N.A. (incorporated by reference to Exhibit 4.1 of the Registrant's Current Report on Form 8-K dated September 12, 2008, File No. 001-11590).
5	Opinion of Baker & Hostetler LLP regarding legality of the securities being offered.
23.1	Consent of Baker & Hostetler LLP (included in Item 5 above).
23.2	Consent of ParenteBeard LLC (incorporated by reference to Exhibit 23.2 of Amendment No. 1 to the Registration Statement on Form S-3 filed on January 6, 2012, Registration No. 333-178678).
24	Powers of Attorney (incorporated by reference to the Signature Page of the Registration Statement on Form S-3 filed on December 21, 2011, Registration No. 333-178678).

**ITEM 17. UNDERTAKINGS.**

- (a) The undersigned registrant hereby undertakes:
- (1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement;
    - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

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- (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and
  - (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; *provided, however,* that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) of this section do not apply if the registration statement is on Form S-3 (§239.13 of this chapter) or Form F-3 (§239.33 of this chapter) and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) (§230.424(b) of this chapter) that is part of the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.
  - (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
  - (4) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:
    - (i) each prospectus filed by the registrant pursuant to Rule 424(b)(3) (§230.424(b)(3) of this chapter) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
    - (ii) each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5), or (b)(7) (§230.424(b)(2), (b)(5), or (b)(7) of this chapter) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii), or (x) (§230.415(a)(1)(i), (vii), or (x) of this chapter) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which that prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.
  - (5) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
    - (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);
    - (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
    - (iii) The portion of any free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
    - (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.



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(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in this registration statement shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(d) The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance on Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act of 1933 shall be deemed to be part of this registration statement as of the time it was declared effective; and
- (2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the grounds for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dover, State of Delaware, on the 10th day of January, 2012.

**CHESAPEAKE UTILITIES CORPORATION**

By:           /s/ MICHAEL P. McMASTERS            
**Michael P. McMasters**  
**President and Chief Executive Officer**

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

<i>SIGNATURES</i>	<i>TITLE</i>	<i>DATE</i>
<u>          /s/ MICHAEL P. McMASTERS          </u> <b>Michael P. McMasters</b>	President, Chief Executive Officer (principal executive officer) and Director	January 10, 2012
<u>          /s/ BETH W. COOPER          </u> <b>Beth W. Cooper</b>	Senior Vice President and Chief Financial Officer (principal financial officer and principal accounting officer)	January 10, 2012
<u>          *          </u> <b>Ralph J. Adkins</b>	Chairman of the Board and Director	January 10, 2012
<u>          *          </u> <b>John R. Schimkaitis</b>	Vice Chairman of the Board and Director	January 10, 2012
<u>          *          </u> <b>Eugene H. Bayard, Esq.</b>	Director	January 10, 2012
<u>          *          </u> <b>Richard Bernstein</b>	Director	January 10, 2012
<u>          *          </u> <b>Thomas J. Bresnan</b>	Director	January 10, 2012



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<u>          *          </u> <b>Thomas P. Hill, Jr.</b>	Director	January 10, 2012
<u>          *          </u> <b>Dennis S. Hudson.</b>	Director	January 10, 2012
<u>          *          </u> <b>Paul L. Maddock, Jr.</b>	Director	January 10, 2012
<u>          *          </u> <b>J. Peter Martin.</b>	Director	January 10, 2012
<u>          *          </u> <b>Joseph E. Moore, Esq.</b>	Director	January 10, 2012
<u>          *          </u> <b>Calvert A. Morgan, Jr.</b>	Director	January 10, 2012
<u>          *          </u> <b>Dianna F. Morgan</b>	Director	January 10, 2012

\* By: /s/ BETH W. COOPER  
**Beth W. Cooper, Attorney-in-Fact**