CHESAPEAKE
UTILITIES CORPORATION

March 30, 2009

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

RE: Docket No. 070640-GU, Consummation Report of Securities Issued by Chesapeake Utilities Corporation

Dear Ms. Cole:

Chesapeake Utilities Corporation (Chesapeake) respectfully files this Consummation Report (original and three copies) on the issuance of securities for the fiscal year ended December 31, 2008, in compliance with Rule 25-8.009, Florida Administrative Code. In satisfaction of the Consummation Report requirements, Chesapeake sets forth the following information:

1. On November 29, 2007, the Florida Public Service Commission (FPSC) issued Order No. PSC-07-0952-FOF-GU, which authorized Chesapeake to issue up to 793,223 shares of common stock for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, the conversion of Chesapeake's Convertible Debentures, Directors Stock Compensation Plan, and Employee Stock Awards Plan. The Order further approved the issuance by Chesapeake of up to $40 million in secured and/or unsecured long-term debt. The Order also authorized Chesapeake to issue up to 3,406,777 shares of common stock and an additional $40 million in secured and/or unsecured debt for possible acquisitions. Due to the nature of typical cash for stock acquisitions, the $40 million in secured and/or unsecured debt may be initially issued through a bridge loan in the form of bank notes or some similar form of short-term obligations. The Order provides that the Company can issue short-term obligations in an amount not to exceed $70 million in support of the bridge financing, subsequently refinanced as unsecured long-term debt with an estimated rate of interest of up to 300 basis points above U.S. Treasury rates with an equivalent average life. In addition, the Order authorized Chesapeake to issue up to 800,000 shares of common stock or an equity-linked instrument equivalent in value to permanently finance the Company's ongoing capital expenditures program. Chesapeake was also authorized to issue up to 1,000,000 shares of Chesapeake preferred stock for possible

COM ____
ECR ____
GCL 1
OPC ____
RCP ____
SSC ____
SGA ____
ADM ____
CLK ____

Chesapeake Utilities Corporation
909 Silver Lake Boulevard • Dover, Delaware 19904 • 302.734.6799 • 302.734.6750: fax

acquisitions, financing transactions, and other general corporate purposes, including potential distribution under the Company's Shareholder Rights Agreement adopted by the Board of Directors on August 20, 1999 and subsequently modified and extended by the Board of Directors on September 19, 2008. Copies of Chesapeake Utilities Corporation's First Amendment to Rights Agreement and the Company's Form 8-K filed with the Securities and Exchange Commission regarding the First Amendment to Rights Agreement have been previously filed with the FPSC in 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 Borrowing in 2009, Docket No. 080635-GU, dated November 19, 2008, and are hereby incorporated by reference. Lastly, Chesapeake received authorization pursuant to the Order to enter into agreements for Interest Rate Swap Products in an amount, in the aggregate not to exceed $40 million.

2. On October 31, 2008, Chesapeake consummated a long-term debt placement of 5.93% Unsecured Senior Notes due October 31, 2023 in the principal amount of $30,000,000. The Notes were issued to two subsidiaries of Metropolitan Life Insurance Company (MetLife), General American Life Insurance Company and New England Life Insurance Company. The terms of the Notes require semi-annual principal payments of $1,500,000 on the 30th day of April and 31st day of October beginning on April 30, 2014. The $30,000,000 of proceeds from the long-term debt placement were used to refinance capital expenditures and for general corporate purposes. The Company received approval from the Board of Directors on August 6, 2008 to proceed with the negotiation and preparation of the long-term debt financing of $30,000,000 for consummation prior to January 31, 2009. On August 27, 2008, the Company entered into an agreement in principle with MetLife to purchase $30,000,000 of Unsecured Senior Notes at mutually acceptable terms and conditions. Pursuant to the Delaware Public Service Commission (DPSC) Order No. 7065 dated October 31, 2006, the Commission authorized the Company to issue up to $40,000,000 in common stock and/or debt securities over a three-year period under a Shelf Registration Statement. Under the Shelf Registration Statement, the Company previously issued $20,000,000 in common stock. Accordingly, $20,000,000 of the $30,000,000 in principal amount of Unsecured Senior Notes to be issued to MetLife, was issued pursuant to the DPSC's approval of the Company's Shelf Registration Statement. Copies of the Shelf Registration Statement and the DPSC Order have been

previously filed with the FPSC within Exhibits D and F, respectively, of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowing in 2008, Docket No. 070640-GU, dated November 29, 2007, and are hereby incorporated by reference. On September 29, 2008, the Company filed an Application with the DPSC requesting authorization for the issuance of an additional $10,000,000 in principal amount of Unsecured Senior Notes to be issued to MetLife. A copy of the Application has been previously filed as Exhibit C of the Application by Chesapeake Utilities Corporation for Authorization to Issue Common Stock, Preferred Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowing in 2009, Docket No. 080635-GU, dated November 19, 2008, and is hereby incorporated by reference. On October 23, 2008, the Company received authorization from the DPSC to issue the additional $10,000,000 in long-term debt pursuant to DPSC Order No. 7464, Docket No. 08-305. A copy of the Order is attached hereto as Exhibit C. At the time of the $30,000,000 long-term debt issuance, the Company was not required to obtain authorization from the FPSC since the Company had been pre-approved for the issuance and sale of up to $40,000,000 in secured and/or unsecured long-term debt in 2008 pursuant to Order No. PSC-07-0952-FOF-GU, issued on November 29, 2007. As of December 31, 2008, the principal balance for the 5.93% Unsecured Senior Notes was $30,000,000.

3. During the fourth quarter of 2008, the Company was able to increase its total committed short-term borrowing capacity from $15,000,000 to $55,000,000 under its two committed lines of credit. To maintain the same total line capacity of $100,000,000 the uncommitted lines of credit with the respective banks were reduced accordingly.

4. 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.

5. Of the above-mentioned securities, and for the twelve-month period ended December 31, 2008, Chesapeake also issued the following:

(a) 5,260 shares of common stock were issued for the purpose of administering Chesapeake's Retirement Savings Plan. The average issuance price of these shares was $30.18 per share. Expenses associated with this issuance were negligible.

(b) 18,583 shares of common stock were issued for the Performance Incentive Plan. The average issuance price of these shares was $30.59 per share. Expenses associated with this issuance were negligible.

(c) 9,060 shares of common stock were issued for the purpose of administering Chesapeake's Dividend Reinvestment and Direct Stock Purchase Plan. The average issuance price of these shares was $30.19 per share. Expenses associated with this issuance were negligible.

(d) 10,397 shares of common stock were issued for the conversion of debentures. The average issuance price of these shares was $17.01 per share. Expenses associated with this issuance were negligible.

(e) 6,161 shares of common stock were issued for the Directors Stock Compensation Plan. The average issuance price of these shares was $29.43 per share. Expenses associated with this issuance were negligible.

(f) 250 shares of common stock were issued for the Employee Stock Award Plan. The average issuance price of these shares was $30.34 per share. Expenses associated with this issuance were negligible.

6. Schedules showing capitalization, pretax interest coverage and debt interest requirements as of December 31, 2008, are attached hereto as Exhibit A.

7. Except for those agreements provided as Exhibits to this document, copies of all Plans, Agreements, registration filings with the Securities and Exchange Commission and Orders of the Delaware Public Service Commission authorizing the issuance of the above securities have been previously filed with the FPSC under Docket Nos. 931112-GU, 961194-GU, 981213-GU, 991631-GU, 030942-GU, 050630-GU, 060728-GU, a nd 070640-GU, and are hereby incorporated by reference.

8. Signed copies of the Opinions of Counsel with respect to the legality of all other securities issued have been previously filed with the FPSC as exhibits to the Consummation Reports of Securities issued by Chesapeake Utilities, Docket Nos. 931112-GU, 961194-GU, 971397-GU, 991631-GU, 030942-GU, 041263-GU, and 050630-GU dated April 1, 1994, March 27, 1998, March 29, 1999, March 29, 2001, March 22, 2005, March 28, 2006, and March 29, 2007, respectively, and are hereby incorporated by reference.

9. A copy of Chesapeake's most current Form 10-K as filed with the Securities and Exchange Commission is attached hereto as Exhibit B.

We respectfully submit this Consummation Report on the issuance of securities by Chesapeake Utilities Corporation, Florida Public Service Commission Docket No. 070640-GU, this 30th day of March 2009.

Sincerely,

CHESAPEAKE UTILITIES CORPORATION

Beth W. Cooper

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

CHESAPEAKE UTILITIES CORPORATION
Summary of Exhibits

Exhibit Reference	Description
Exhibit A	Schedules showing capitalization, pretax interest coverage and debt requirements as of December 31, 2008
Exhibit B	Form 10-K for the year ended December 31, 2008
Exhibit C	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
Exhibit D	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

CHESAPEAKE UTILITIES CORPORATION
Capitalization Ratios Actual & Pro Forma as of December 31, 2007

UNAUDITED

TYPE OF CAPITAL	ACTUAL BEFORE ISSUANCE AMOUNT OUTSTANDING	% OF TOTAL	PRO FORMA ADJUSTMENT	PRO FORMA AFTER ISSUANCE AMOUNT OUTSTANDING	% OF TOTAL
STOCKHOLDERS' EQUITY					
COMMON STOCK	$3,298,473	1.40%	$24,194	$3,322,668	1.41%
PAID IN CAPITAL	$65,591,552	27.78%	$1,089,144	$66,680,696	28.24%
RETAINED EARNINGS	$51,538,194	21.82%	$0	$51,538,194	21.82%
ACCUMULATED OTHER COMPREHENSIVE INCOME	($851,674)	-0.36%	$0	($851,674)	-0.36%
DEFERRED COMPENSATION OBLIGATION	$1,403,922	0.59%	$0	$1,403,922	0.59%
TREASURY STOCK	($1,403,922)	-0.59%	$0	($1,403,922)	-0.59%
PREFERRED STOCK	$0	0.00%	$0	$0	0.00%
TOTAL STOCKHOLDERS' EQUITY	$119,576,545	50.64%	$1,113,338	$120,689,883	51.11%
LONG-TERM DEBT					
FIRST MORTGAGE BONDS	$0	0.00%	$0	0	0.00%
CONVERTIBLE DEBENTURES	$1,832,000	0.78%	$0	$1,832,000	0.78%
SENIOR NOTES	$61,363,636	25.98%	$30,000,000	$91,363,636	38.69%
OTHER	$60,000	0.03%	$0	$60,000	0.03%
TOTAL LONG-TERM DEBT	$63,255,636	26.79%	$30,000,000	$93,255,636	39.49%
TOTAL PERMANENT CAPITAL	$182,832,181	77.42%	$31,113,338	$213,945,519	90.60%
CURRENT PORTION OF LTD	$7,656,364	3.24%	$0	$7,656,364	3.24%
SHORT-TERM DEBT	$45,663,944	19.34%	($31,113,338)	$14,550,606	6.16%
TOTAL CAPITALIZATION	$236,152,490	100.00%	$0 (a)	$236,152,490	100.00%

(a) The Company's short-term borrowing continued to increase in 2008 because of its capital expenditure program.

CHESAPEAKE UTILTIES CORPORATION

Notes to Capitalization, Income and
Pretax Interest Coverage Schedules
As of December 31, 2008

The following adjustments have been made to capitalization:

1. Common Stock – Number of shares (49,711) times par value ($0.4867 per share), with the shares issued for the following purposes:

   5,260 shares for the Retirement Savings Plan
   18,583 shares for the Performance Incentive Plan
   9,060 shares for the Dividend Reinvestment and Stock Purchase Plan
   10,397 shares for the conversion of debentures
   6,161 shares for the Directors Stock Compensation Plan
   250 shares for the Employee Stock Award Plan

2. Additional Paid in Capital – Total cash value less the associated Common Stock amount for the following issuances:

   5,260 shares at $32.09 per share
   18,583 shares at $30.89 per share
   9,060 shares at $32.22 per share
   10,397 shares at $17.01 per share
   6,161 shares at $31.38 per share
   250 shares at $29.47 per share

3. Short-Term Debt –

   Short-term borrowing continued to increase in 2008 because of the Company's capital expenditure program. However, the short-term borrowing requirement declined as a result of the proceeds from the $30,000,000 long-term debt placement, and proceeds from various equity plans, whose issuances were described above.

CHESAPEAKE UTILITIES CORPORATION
Statement of Income and Pretax Interest Coverage
Actual & Pro Forma for the Twelve Months Ended December 31, 2007 (a)

UNAUDITED

	Annualized Twelve Months		
	Actual Before Issuance	Pro Forma Adjustment	Pro Forma After Issuance
Statement of Income			
1 Operating revenues	$258,286,495	$0	$258,286,495
2 Operating expenses before income taxes	$230,172,913	$0	$230,172,913
3 Income taxes (including Deferrals)	$8,597,461	($376,737)	$8,220,724
4 Operating Income (1-(2+3))	$19,516,121	$376,737	$19,892,858
5 Other Income, Net	$291,305	$0	$291,305
6 Income Before Interest Charges (4+5)	$19,807,426	$376,737	$20,184,163
7 Interest Charges	$6,589,639	$958,619	$7,548,258
8 Income from Continuing Operations (6-7)	$13,217,787	($581,883)	$12,635,904
9 Preferred stock dividends	$0	$0	$0
10 Earnings available to common equity (8-9)	$13,217,787	($581,883)	$12,635,904
11 Pretax Interest Coverage ((3+6)/7)	4.31	N/A	3.76

(a) Excludes discontinued operations.

Exhibit B

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

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2008   Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ]. No [X].

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2008

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GLOSSARY OF KEY TERMS

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

Subsidiaries of Chesapeake Utilities Corporation

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

Regulatory Agencies

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

Other

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

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

Accounting Standards

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

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

PART I

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

Safe Harbor for Forward-Looking Statements

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

ITEM 1. BUSINESS.

(a) General

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

Chesapeake is composed of four operating segments:

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

(b) Financial Information About Business Segments

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

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

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

(c) Narrative Description of the Business

(i)(a) Natural Gas

Chesapeake's natural gas segment provides natural gas distribution, transmission and marketing services for its customers. Chesapeake conducts its natural gas distribution operations under three divisions: Delaware, Maryland, and Florida, which are based in their respective service territories. These three divisions serve approximately 65,190 residential, commercial and industrial customers in central and southern Delaware, Maryland's Eastern Shore and parts of Florida. The Company's natural gas transmission subsidiary, ESNG, operates a 379-mile interstate pipeline system that transports gas from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. The Company, through its subsidiary, PESCO, also provides natural gas supply and supply management services in the States of Delaware, Florida and Maryland.

Natural Gas Distribution

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

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

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

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

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

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

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

Natural Gas Transmission

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

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

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

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

Natural Gas Marketing

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

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

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

Gas Supplies, Firm Transportation and Storage Capacity

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

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

Delaware.

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

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

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

Maryland.

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

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

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

Florida.

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

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

ESNG.

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

PESCO.

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

Competition

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

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

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

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

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

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

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

(i)(b) Propane
Propane is a form of liquefied petroleum gas, which is typically extracted from natural gas or separated during the crude oil refining process. Although propane is a gas at normal pressure, it is easily compressed into liquid form for storage and transportation. Propane is a clean-burning fuel, gaining increased recognition for its environmental superiority, safety, efficiency, transportability and ease of use relative to alternative forms of fossil fuels. Propane is sold primarily in suburban and rural areas, which are not served by natural gas distributors.

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

Propane Distribution.

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

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

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

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

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

Propane Wholesale Marketing.

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

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

Competition

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

Rates and Regulation

The propane distribution and wholesale marketing activities are not subject to any federal or state pricing regulation. Transport operations are subject to regulations concerning the transportation of hazardous materials promulgated by the Federal Motor Carrier Safety Administration within the United States Department of Transportation ("DOT") and enforced by the various states in which such operations take place. Propane distribution operations are also subject to state safety regulations relating to "hook-up" and placement of propane tanks.

The Company's propane operations are subject to operating hazards normally associated with the handling, storage and transportation of combustible liquids, such as the risk of personal injury and property damage caused by fire. The Company carries general liability insurance in the amount of $35 million, but there is no assurance that such insurance will be adequate to cover all potential liabilities.

Seasonality of Propane Revenues

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

(i)(c) Advanced Information Services

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

Competition

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

(i)(d) Other Subsidiaries

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

(ii) Capital Budget

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

(iii) Employees

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

(iv) Financial Information about Geographic Areas

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

(d) Available Information

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

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

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

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

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

ITEM 1A. RISK FACTORS.

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

Financial Risks

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

Current levels of market volatility are unprecedented.

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

Difficult conditions in the financial services markets have materially and adversely affected the business and results of operations of many financial institutions, and we do not know when and if these conditions may improve in the near future.

Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially representing mortgage-backed securities but more recently including credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced and, in some cases, ceased to provide funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

The unsoundness of financial institutions could adversely affect the Company.

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

A downgrade in our credit rating could adversely affect our access to capital markets.

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

Debt covenant obligations, if triggered, may affect our financial condition.

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

The continuation of recent economic conditions could adversely affect our customers and negatively impact our financial results.

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

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

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

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

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

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

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

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

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

Operational Risks

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our use of derivative instruments may adversely affect our results of operations.

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

Changes in customer growth may affect earnings and cash flows.

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

Chesapeake's businesses are capital intensive, and the costs of capital projects may be significant.

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

Chesapeake's facilities and operations could be targets of acts of terrorism.

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

The risk of terrorism and political unrest and the current hostilities in the Middle East may adversely affect the economy and the price and availability of propane, refined fuels and natural gas.

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

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

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

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

Regulatory and Legal Risks

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

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

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

Environmental Risks

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

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

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

We may be exposed to certain regulatory and financial risks related to climate change.

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

(a) General

The Company owns offices and operates facilities in the following locations: Pocomoke, Salisbury, Cambridge and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; Lecato, Virginia; and Winter Haven, Florida. The Company rents office space in Dover, Ocean View, and South Bethany, Delaware; Jupiter and Lecanto, Florida; Chincoteague and Belle Haven, Virginia; Easton, Maryland; Honey Brook and Allentown, Pennsylvania; Houston, Texas; and Norcross, Georgia. In general, the Company believes that its offices and facilities are adequate for the uses for which they are employed.

(b) Natural Gas Distribution

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

(c) Natural Gas Transmission

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

(d) Propane Distribution and Wholesale Marketing

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

ITEM 3. LEGAL PROCEEDINGS.

(a) General

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

(b) Environmental

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

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

None

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

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

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

Michael P. McMasters was appointed as Executive Vice President and Chief Operating Officer in September of 2008. Prior to this appointment, Mr. McMasters served as Senior Vice President since 2004 and Chief Financial Officer of the Company since 1996. He has previously held the positions of Vice President, Treasurer, Director of Accounting and Rates, and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

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

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

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

PART II

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

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

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

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

Holders

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

Dividends

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

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

(b) Purchases of Equity Securities by the Issuer

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

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

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

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

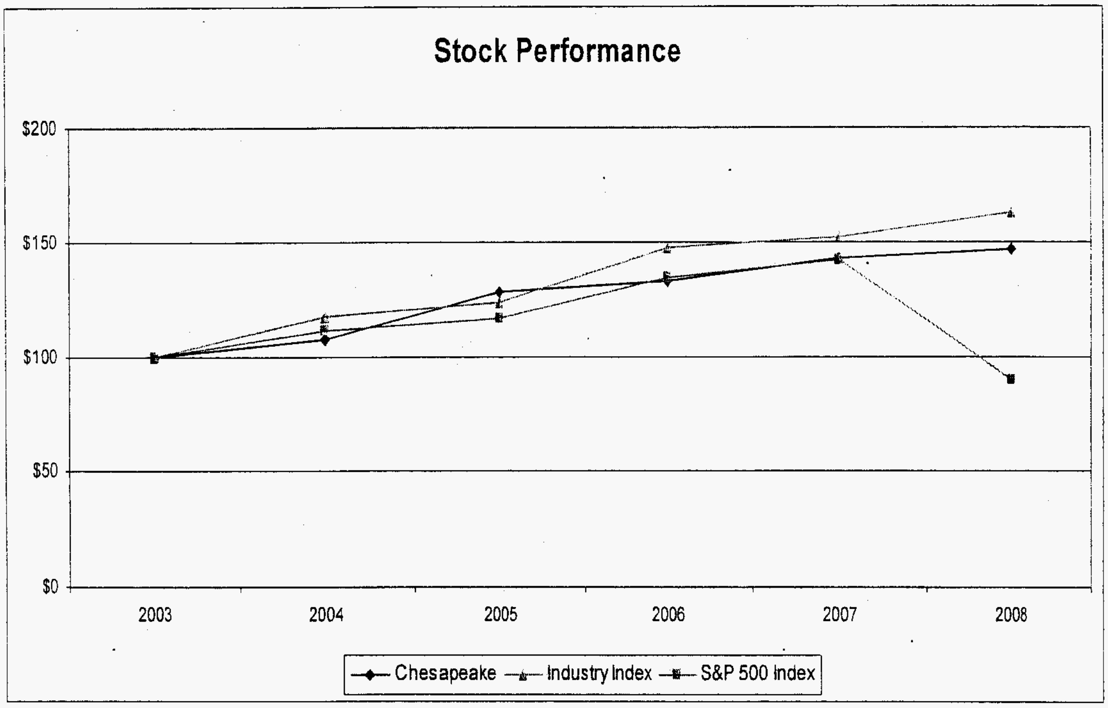
Discussion of compensation plans of Chesapeake and its subsidiaries, for which shares of Chesapeake common stock are authorized for issuance, included in the portion of the Proxy Statement captioned "Equity Compensation Plan Information" to be filed not later than March 31, 2009, in connection with the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

(c) Chesapeake Utilities Corporation Common Stock Performance Graph

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

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

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



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

ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

Item 6. Selected Financial Data

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

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

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

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

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

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

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

INTRODUCTION

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

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

EXECUTIVE OVERVIEW

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

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

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

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

Chesapeake had a successful 2008, in spite of the state of the global economic and financial markets. For the year, net income increased by three percent as the Company earned $13.6 million in net income, or $1.98 per share (diluted), compared to net income of $13.2 million, or $1.94 per share (diluted), earned in 2007. We were able to achieve this growth despite taking a charge of $1.2 million in other operating expenses for costs related to an unconsummated acquisition. Absent this charge, the Company estimates that, compared to 2007, net income would have increased to $14.3 million, or $2.08 per share (diluted).

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

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

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

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

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

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

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

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

Operating Income

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

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

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

Critical Accounting Policies

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

Regulatory Assets and Liabilities

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

Valuation of Environmental Assets and Liabilities

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

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

Derivatives

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

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

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

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

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

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

Operating Revenues

Revenues for the natural gas distribution operations of the Company are based on rates approved by the PSCs of the jurisdictions in which we operate. The natural gas transmission operation's revenues are based on rates approved by the FERC. Customers' base rates may not be changed without formal approval by these commissions. The PSCs, however, have granted the Company's regulated natural gas distribution operations the ability to negotiate rates, based on approved methodologies, with customers that have competitive alternatives. In addition, the natural gas transmission operation can negotiate rates above or below the FERC-approved tariff rates.

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

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

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

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

Allowance for Doubtful Accounts

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

Pension and other Postretirement Benefits

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

The total pension and other postretirement benefit costs included in operating income were $537,000, $370,000 and $387,000 in 2008, 2007 and 2006, respectively. The company expects to record higher pension and postretirement benefit costs in the range of $400,000 to $600,000 for 2009. The increased costs for 2009 represents the significant market decline in the values of the defined pension plan assets when compared to prior years. Actuarial assumptions affecting 2009 include an expected long-term rate of return on plan assets of 6.0 percent, consistent with the prior year, and discount rates of 5.25 percent for each of the plans, compared with 5.5 percent for the plans a year earlier. The discount rates for each plan were determined by the Company considering high quality corporate bond rates based on Moody's Aa bond index, changes in those rates from the prior year, and other pertinent factors, such as the expected life of the plan and the lump-sum-payment option.

Results of Operations

Net Income & Diluted Earnings Per Share Summary

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

** Dollars in thousands.*

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

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

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

Operating Income Summary (in thousands)

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

2008 Compared to 2007

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

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

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

2007 Compared to 2006

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

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

Natural Gas

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

Natural Gas (in thousands)

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

Heating Degree-Day (HDD) and Customer Analysis

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

2008 Compared to 2007

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

Natural Gas Transmission

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

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

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

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

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

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

<u>*Natural Gas Distribution*</u>

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

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

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

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

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

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

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

Natural Gas Marketing

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

2007 Compared to 2006

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

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

Natural Gas Transmission

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

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

Natural Gas Distribution

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

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

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

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

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

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

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

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

Natural Gas Marketing

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

Propane

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

Propane (in thousands)

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

Propane Heating Degree-Day (HDD) Analysis — Delmarva

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

2008 Compared to 2007

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

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

Delmarva Propane Distribution

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

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

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

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

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

Florida Propane Distribution

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

Propane Wholesale and Marketing

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

2007 Compared to 2006

Operating income for the propane segment increased by $2.0 million to $4.5 million for 2007 compared to 2006. Gross margin in the Delmarva propane distribution operations increased by $3.2 million, compared to 2006, due primarily to increases in the average retail margin per gallon and colder weather on the Delmarva Peninsula. Gross margin also increased in the Florida propane distribution operation and the Company's wholesale propane marketing operation by $100,000 and $677,000, respectively.

Delmarva Propane Distribution

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

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

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

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

Florida Propane Distribution

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

Propane Wholesale and Marketing

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

Advanced Information Services

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

Advanced Information Services (in thousands)

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

2008 Compared to 2007

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

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

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

2007 Compared to 2006

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

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

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

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

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

Other Operations and Eliminations

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

Other Operations & Eliminations (in thousands)

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

Other Income

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

Interest Expense

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

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

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

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

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

Income Taxes

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

Discontinued Operations

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

Liquidity and Capital Resources

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

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

On December 11, 2008, the Board of Directors authorized the Company to borrow up to $65.0 million of short-term debt, as required, from various banks and trust companies under short-term lines of credit. As of December 31, 2008, Chesapeake had five unsecured bank lines of credit with three financial institutions, for a total of $100.0 million, none of which requires compensating balances. These bank lines are available to provide funds for the Company's short-term cash needs to meet seasonal working capital requirements and to fund temporarily portions of its capital expenditures. In response to the instability and volatility of the financial markets during 2008, the Company solidified its lines of credit by converting $40.0 million of available credit under uncommitted lines to committed lines of credit. At December 31, 2008, two of the bank lines, totaling $55.0 million, are committed. Advances offered under the uncommitted lines of credit are subject to the discretion of the banks. The outstanding balance of short-term borrowing at December 31, 2008 and 2007 was $33.0 million and $45.7 million, respectively. The level of short-term debt was reduced in 2008 with funds provided from the placement of $30 million of 5.93 percent Unsecured Senior Notes in October 2008.

Chesapeake has budgeted $34.8 million for capital expenditures during 2009. This amount includes $21.6 million for natural gas distribution, $8.8 million for natural gas transmission, $3.6 million for propane distribution and wholesale marketing, $250,000 for advanced information services and $507,000 for other operations. The natural gas distribution and transmission expenditures are for expansion and improvement of facilities. The propane expenditures are to support customer growth and to replace equipment. The advanced information services expenditures are for computer hardware, software and related equipment. The other category includes general plant, computer software and hardware. The Company expects to fund the 2009 capital expenditures program from short-term borrowing, cash provided by operating activities, and other sources. The capital expenditure program is subject to continuous review and modification. Actual capital requirements may vary from the above estimates due to a number of factors, including changing economic conditions, customer growth in existing areas, regulation, new growth or acquisition opportunities and availability of capital.

Capital Structure

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

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

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

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

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

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

Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, is intended to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The Company believes that the achievement of these objectives will provide benefits to customers and creditors, as well as its investors.

Shelf Registration

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

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

Cash Flows Provided by Operating Activities

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

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

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

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

Cash Flows From Operating Activities

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

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

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

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

Cash Flows Used in Investing Activities

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

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

Cash Flows Provided by Financing Activities

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

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

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

Contractual Obligations

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

Rate Filings and Other Regulatory Activities

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

Environmental Matters

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

Market Risk

Market risk represents the potential loss arising from adverse changes in market rates and prices. Long-term debt is subject to potential losses based on changes in interest rates. The Company's long-term debt consists of fixed-rate senior notes and convertible debentures (see Note I to the Consolidated Financial Statements for annual maturities of consolidated long-term debt). All of the Company's long-term debt is fixed-rate debt and was not entered into for trading purposes. The carrying value of long-term debt, including current maturities, was $93.1 million at December 31, 2008, as compared to a fair value of $92.3 million, based on a discounted cash flow methodology that incorporates a market interest rate that is based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, and risk profile. The Company evaluates whether to refinance existing debt or permanently refinance existing short-term borrowing, based in part on the fluctuation in interest rates.

The Company's propane distribution business is exposed to market risk as a result of propane storage activities and entering into fixed price contracts for supply. The Company can store up to approximately four million gallons (including leased storage and rail cars) of propane during the winter season to meet its customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline. To mitigate the impact of price fluctuations, the Company has adopted a Risk Management Policy that allows the propane distribution operation to enter into fair value hedges of its inventory. At December 31, 2008, the propane distribution operation had entered into a swap agreement to protect the Company from the impact of price increases on the Pro-Cap Plan that we offer to customers. The Company considered this agreement to be an economic hedge that did not qualify for hedge accounting as described in SFAS No. 133. At the end of 2008, the market price of propane, valued using broker or dealer quotations, or market transactions in either the listed or OTC markets, dropped below the unit price in the swap agreement. As a result of the price drop, the Company marked the January and February gallons in the agreement to market, which resulted in an increase to cost of sales of $939,000. The Company subsequently terminated the swap agreement in January 2009. The Company did not enter into a similar agreement in 2007.

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

The forward and futures contracts are entered into for trading and wholesale marketing purposes. The propane wholesale marketing business is subject to commodity price risk on its open positions to the extent that market prices for natural gas liquids deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is monitored daily for compliance with the Company's Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed by the Company's oversight officials daily. In addition, the Risk Management Committee reviews periodic reports on markets and the credit risk of counter-parties, approves any exceptions to the Risk Management Policy (within limits established by the Board of Directors) and authorizes the use of any new types of contracts. Quantitative information on forward and futures contracts at December 31, 2008 and 2007 is presented in the following tables.

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

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

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

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

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

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

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

Competition

The Company's natural gas operations compete with other forms of energy including electricity, oil and propane. The principal competitive factors are price and, to a lesser extent, accessibility. The Company's natural gas distribution operations have several large-volume industrial customers that can use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers may convert to oil to satisfy their fuel requirements, and our interruptible sales volumes may decline because oil prices are lower than the price of natural gas. Oil prices, as well as the prices of electricity and other fuels, fluctuate for a variety of reasons; therefore, future competitive conditions are not predictable. To address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales sides of this business to compete with alternative fuel price fluctuations. As a result of the transmission operation's conversion to open access and the Florida gas distribution division's restructuring of its services, these businesses have shifted from providing bundled transportation and sales service to providing only transportation and contract storage services.

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

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

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

The advanced information services business faces significant competition from a number of larger competitors having substantially greater resources available to them than does the Company. In addition, changes in the advanced information services business are occurring rapidly, and could adversely affect the markets for the products and services offered by these businesses. This segment competes on the basis of technological expertise, reputation and price.

Inflation

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

Cautionary Statement

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Management's Report on Internal Control Over Financial Reporting

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

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

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

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

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

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

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
of Chesapeake Utilities Corporation

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

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

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

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

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

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

Consolidated Statements of Cash Flows

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

Supplemental Cash Flow Disclosures (see Note D)

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

Consolidated Balance Sheets

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

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

Consolidated Balance Sheets

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

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

Consolidated Statements of Stockholders' Equity

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

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

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

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

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

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

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

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

Consolidated Statements of Income Taxes

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

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

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

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

A. Summary of Accounting Policies

Nature of Business

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

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. The Company does not have any ownership interests in investments accounted for using the equity method or any variable interests in a variable interest entity. All intercompany transactions have been eliminated in consolidation.

System of Accounts

The natural gas distribution divisions of the Company located in Delaware, Maryland and Florida are subject to regulation by their respective PSCs with respect to their rates for service, maintenance of their accounting records and various other matters. ESNG is an open access pipeline and is subject to regulation by the FERC. Our financial statements are prepared in accordance with GAAP, which give appropriate recognition to the ratemaking and accounting practices and policies of the various commissions. The propane, advanced information services and other business segments are not subject to regulation with respect to rates or maintenance of accounting records.

Property, Plant, Equipment and Depreciation

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

Notes to the Consolidated Financial Statements

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

(1) Certain immaterial account balances may fall outside this range.

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

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

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

Cash and Cash Equivalents

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

Inventories

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

Regulatory Assets, Liabilities and Expenditures

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

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

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

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

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

Goodwill and Other Intangible Assets

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

Other Deferred Charges

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

Pension and Other Postretirement Plans

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

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

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

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

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

Income Taxes and Investment Tax Credit Adjustments

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

Deferred tax assets and liabilities are recorded for the tax effect of temporary differences between the financial statements bases and tax bases of assets and liabilities and are measured using the enacted tax rates in effect in the years in which the differences are expected to reverse. The portions of the Company's deferred tax liabilities applicable to utility operations, which have not been reflected in current service rates, represent income taxes recoverable through future rates. Deferred tax assets are recorded net of any valuation allowance when it is more likely than not that such tax benefits will be realized. Investment tax credits on utility property have been deferred and are allocated to income ratably over the lives of the subject property.

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

Financial Instruments

Xeron, the Company's propane wholesale marketing operation, engages in trading activities using forward and futures contracts, which have been accounted for using the mark-to-market method of accounting. Under mark-to-market accounting, the Company's trading contracts are recorded at fair value, net of future servicing costs. The changes in market price are recognized as gains or losses in revenues on the income statement in the period of change. The resulting unrealized gains and losses are recorded as assets or liabilities, respectively. There were unrealized gains of $1.4 million and $179,000 at December 31, 2008 and 2007, respectively. Trading liabilities are recorded in mark-to-market energy liabilities. Trading assets are recorded in mark-to-market energy assets.

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

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

Earnings Per Share

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

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

Operating Revenues

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

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

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

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

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

Cost of Sales

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

Operations and Maintenance Expenses

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

Depreciation and Accretion Included in Operations Expenses

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

Allowance for Doubtful Accounts

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

Certain Risks and Uncertainties

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

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

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

Recent accounting pronouncements:

In December 2007, the FASB issued SFAS No. 141(R), which retains the fundamental requirements of the original pronouncement requiring that the acquisition method be used for all business combinations. SFAS No.141(R): (a) defines the acquirer as the entity that obtains control of one or more businesses in a business combination, (b) establishes the acquisition date as the date that the acquirer achieves control and (c) requires the acquirer to recognize the assets acquired, liabilities assumed and any non-controlling interests at their fair values as of the acquisition date. SFAS No. 141(R) also requires that acquisition-related costs be expensed as incurred. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008. The Company does not expect the adoption of SFAS No.141(R) to have a material impact on its current consolidated financial position and results of operations. However, depending upon the size, nature and complexity of future acquisition transactions, the adoption of SFAS No. 141(R) could materially affect the Company's consolidated financial statements.

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

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

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

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

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

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") APB 14-1, which clarifies that convertible debt instruments that may be settled in cash upon either mandatory or optional conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, "Accounting for Convertible Debt and Debt issued with Stock Purchase Warrants." In addition, FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company does not expect the adoption of FSP APB 14-1 to have a material impact on its current consolidated financial position and results of operations.

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

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

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

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

During 2008, the Company adopted the following accounting standards:

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

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

Effective January 1, 2008, Chesapeake adopted FIN 39-1, which permits companies to offset cash collateral receivables or payables with net derivative positions under certain circumstances. Based on the derivative contracts entered into to date, adoption of this FSP has not materially affected the Company's consolidated financial statements for the period ended December 31, 2008.

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

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

Reclassification of Prior Years' Amounts

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

B. Business Dispositions and Discontinued Operations

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

C. Segment Information

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

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

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

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

Chesapeake uses the management approach to identify operating segments. Chesapeake organizes its business around differences in products or services, and the operating results of each segment are regularly reviewed by the Company's chief operating decision maker in order to make decisions about resources and to assess performance. The segments are evaluated based on their pre-tax operating income.

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

D. Supplemental Cash Flow Disclosures

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

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

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

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

E. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Level 1 Fair Value Measurements:

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

Level 2 Fair Value Measurements:

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

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

In addition, various items within the balance sheet are considered to be financial instruments, because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value. The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology that incorporates a market interest rate that is based on published corporate borrowing rates for debt instruments with similar terms and average maturities with adjustments for duration, optionality, and risk profile. The Company's long-term debt at December 31, 2008, including current maturities, had an estimated fair value of $92.3 million compared to a carrying value of $93.1 million. At December 31, 2007, the estimated fair value was approximately $75.0 million compared to a carrying value of $70.9 million.

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

F. INVESTMENTS

The investment balances at December 31, 2008 and 2007 represent a Rabbi Trust associated with the Company's Supplemental Executive Retirement Savings Plan and a Rabbi Trust related to a stay bonus agreement with a former executive. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," the Company classifies these investments as trading securities. As a result of classifying them as trading securities, the Company is required to report the securities at their fair value, with any unrealized gains and losses included in other income. The Company also has an associated liability that is recorded and adjusted each month for the gains and losses incurred by the Trust. At December 31, 2008 and 2007, total investments had a fair value of $1.6 million and $1.9 million, respectively.

G. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

H. STOCKHOLDERS' EQUITY

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

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

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

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

I. LONG-TERM DEBT

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

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

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

The convertible debentures may be converted, at the option of the holder, into shares of the Company's common stock at a conversion price of $17.01 per share. During 2008 and 2007, debentures totaling $177,000 and $138,000, respectively, were converted to stock. The debentures are also redeemable for cash at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000. In 2008 and 2007, no debentures were redeemed for cash. At the Company's option, the debentures may be redeemed at stated amounts.

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

Debt Covenants

Indentures to the long-term debt of the Company and its subsidiaries contain various restrictions. The most stringent restrictions state that the Company must maintain equity of at least 40 percent of total capitalization, and the pro-forma fixed charge coverage ratio must be 1.5 times. Failure to comply with those covenants could result in accelerated due dates and/or termination of the agreements. As of December 31, 2008, the Company is in compliance with all of its debt covenants.

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

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

J. SHORT-TERM BORROWING

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

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

Credit facilities

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

Committed credit facilities

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

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

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

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

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

Uncommitted credit facilities

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

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

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

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

K. Lease Obligations

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

L. Employee Benefit Plans

Retirement Plans

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

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

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

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

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

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

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

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

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

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

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

Defined Benefit Pension Plan

As previously described, effective January 1, 2005, the Defined Pension Plan was frozen with respect to additional years of service or additional compensation. Benefits under the plan were based on each participant's years of service and highest average compensation, prior to the freeze. The Company's funding policy provides that payments to the trustee shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974. The Company was not required to make any funding payments to the Defined Pension Plan in 2008.

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

The Company reviewed the assumptions used for the discount rate to calculate the benefit obligation of the plan and has elected a rate of 5.25 percent in 2008, reflecting a reduction of 25 basis points in the interest rates of high-quality bonds in 2008, and reflecting the expected life of the plan, in light of the lump-sum-payment option. In addition, the average expected return on plan assets for the Defined Pension Plan remained constant at six percent due to the adoption of a change in the investment policy that allows for a higher level of investment in bonds and a lower level of equity investments. Since the Plan is frozen with respect to additional years of service and compensation, the rate of assumed compensation rate increases is not applicable. The accumulated benefit obligation was $11.6 million and $11.1 million at December 31, 2008 and 2007, respectively.

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

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

Pension Supplemental Executive Retirement Plan

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

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

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

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

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

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

Other Postretirement Benefits

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

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

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

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

The health care inflation rate for 2008 used to calculate the benefit obligation is assumed to be five percent for medical and six percent for prescription drugs. A one–percentage-point increase in the health care inflation rate from the assumed rate would increase the accumulated postretirement benefit obligation by approximately $347,300 as of January 1, 2009, and would increase the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2009 by approximately $20,000. A one-percentage-point decrease in the health care inflation rate from the assumed rate would.decrease the accumulated postretirement benefit obligation by approximately $282,500 as of January 1, 2009, and would decrease the aggregate of the service cost and interest cost components of the net periodic postretirement benefit cost for 2009 by approximately $16,000. The measurement dates were December 31, 2008 and 2007.

Estimated Future Benefit Payments

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

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

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

[2] Benefit payments are expected to be paid out of the general funds of the Company.

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

Retirement Savings Plan

The Company sponsors a 401(k) Retirement Savings Plan, which provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions of up to 80 percent of eligible base compensation, subject to Internal Revenue Service limitations. These participants were eligible for the enhanced matching described below, effective January 1, 2005.

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

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

On December 1, 2001, the Company converted the 401(k) fund holding Chesapeake stock to an Employee Stock Ownership Plan.

Effective January 1, 1999, the Company began offering a non-qualified supplemental employee retirement savings plan ("401(k) SERP") open to Company executives over a specific income threshold. Participants receive a cash-only matching contribution percentage equivalent to their 401(k) match level. All contributions and matched funds can be invested among the mutual funds available for investment. These same funds are available for investment of employee contributions within the Retirement Savings Plan. All obligations arising under the 401(k) SERP are payable from the general assets of Chesapeake, although Chesapeake has established a Rabbi Trust for the 401(k) SERP. As discussed further in Note F – "Investments," to the Consolidated Financial Statements, the assets held in the Rabbi Trust had a fair value of $1.6 million and $1.9 million at December 31, 2008 and 2007, respectively. The assets of the Rabbi Trust are at all times subject to the claims of Chesapeake's general creditors.

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

Deferred Compensation Plan

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

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

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

M. SHARE-BASED COMPENSATION PLANS

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

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

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

Stock Options

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

Directors Stock Compensation Plan

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

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

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

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

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

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

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

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

Performance Incentive Plan ("PIP")

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

In 2006 and 2007, the Board of Directors granted each executive officer equity incentive awards, which entitled each to earn shares of common stock to the extent that pre-established performance goals were achieved by the Company at the end of a one-year performance period. For 2008, the Company adopted multi-year performance plans to be used in lieu of the one-year awards. Similar to the one-year plans, the multi-year plans will provide incentives based upon the achievement of long-term goals, development and success of the Company. The long-term goals have both market-based and performance-based conditions or targets.

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

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

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

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

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

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

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

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

N. Environmental Commitments and Contingencies

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

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

Dover Gas Light Site

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

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

Salisbury Town Gas Light Site

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

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

Winter Haven Coal Gas Site

The Winter Haven Coal Gas site is located in Winter Haven, Florida. Chesapeake has been working with the Florida Department of Environmental Protection ("FDEP") in assessing this coal gas site. In May 1996, the Company filed with the FDEP an AS/SVE Pilot Study Work Plan (the "Work Plan") for the Winter Haven Coal Gas site. After discussions with the FDEP, the Company filed a modified Work Plan, which contained a description of the scope of work to complete the site assessment activities and a report describing a limited sediment investigation performed in 1997. In December 1998, the FDEP approved the modified Work Plan, which the Company completed during the third quarter of 1999. In February 2001, the Company filed a Remedial Action Plan ("RAP") with the FDEP to address the contamination of the subsurface soil and ground-water in a portion of the site. The FDEP approved the RAP on May 4, 2001. Construction of the AS/SVE system was completed in the fourth quarter of 2002, and the system remains fully operational.

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

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

Other

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

O. Other Commitments and Contingencies

Rates and Other Regulatory Activities

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

Delaware. On July 6, 2007, the Company filed with the Delaware PSC an application seeking approval of the following: (i) participation by the Company's Delaware commercial and industrial customers in gas supply buying pools served by third-party natural gas marketers; (ii) an annual base rate adjustment of $1,896,000 that represented approximately a 3.25 percent rate increase on average for the division's firm customers; (iii) an alternative rate design for residential customers in a defined expansion area in eastern Sussex County, Delaware; and (iv) a revenue normalization mechanism that would have mitigated the price and revenue impacts of seasonal natural gas consumption patterns on both customers and the Company. As part of that filing, the Company also proposed that the Delaware division be permitted to earn a return on equity of up to fifteen percent (15%) as an incentive to make significant capital investments to serve the growing areas of eastern Sussex County, in support of Delaware's Energy Policy, and to ensure that the Company's investors are adequately compensated for the increased risk associated with the higher levels of capital investment necessary to provide natural gas in those areas. On August 21, 2007, the Delaware PSC authorized the Company to implement charges reflecting the proposed $1,896,000 increase, effective September 4, 2007, on a temporary basis and subject to refund, pending the completion of full evidentiary hearings and a final decision by the Delaware PSC. The PSC Staff filed testimony recommending a rate decrease of $693,245. The Delaware Public Advocate recommended a rate decrease of $588,670. Neither party recommended approval of the Delaware division's other proposals mentioned above. The Delaware division disagreed with these positions in its rebuttal, which was filed on February 7, 2008. At an evidentiary hearing on July 9, 2008, the parties presented a joint proposed settlement agreement to resolve all issues in this docket, and the Delaware PSC approved this settlement agreement on September 2, 2008. The major components of the settlement include the following: (i) a rate increase for the division of $325,000, including miscellaneous fees; (ii) an overall rate of return of 8.91% and a return on equity of 10.25%; (iii) a change in depreciation rates that will reduce depreciation expense by approximately $897,000; (iv) the division will retain one hundred percent (100%) of margins on interruptible service over 10,000 Mcf per year; interruptible customers will receive transportation service only; (v) the division will continue to share with firm service customers, through its Gas Sales Service Rates ("GSR") mechanism, eighty percent (80%) of any margins received from its Asset Manager and any off-system sales; and (vi) the residential service rate schedule will be divided into two separate schedules based on annual volumetric levels.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Natural Gas and Propane Supply

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

Corporate Guarantees

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

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

Internal Revenue Service Examination

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

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

Other

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

P. QUARTERLY FINANCIAL DATA (UNAUDITED)

In the opinion of the Company, the quarterly financial information shown below includes all adjustments necessary for a fair presentation of the operations for such periods and to disclose OnSight as a discontinued operation. The quarterly information shown has been adjusted to reflect the reclassification of OnSight's operations for all periods presented. Due to the seasonal nature of the Company's business, there are substantial variations in operations reported on a quarterly basis.

For the Quarters Ended	March 31	June 30	September 30	December 31
2008				
Operating Revenue	**$100,273,502**	**$69,056,959**	**$49,698,013**	**$72,415,004**
Operating Income	**$14,040,715**	**$4,329,439**	**$1,170,393**	**$8,938,386**
Net Income (Loss)	**$7,574,343**	**$1,818,924**	**($198,298)**	**$4,412,291**
Earnings per share:				
Basic	**$1.11**	**$0.27**	**($0.03)**	**$0.65**
Diluted	**$1.10**	**$0.27**	**($0.03)**	**$0.64**
2007				
Operating Revenue	$93,526,891	$52,501,920	$41,418,718	$70,838,968
Operating Income	$14,613,572	$3,698,066	$985,634	$8,816,310
Net Income (Loss)	$7,991,088	$1,481,791	($355,898)	$4,080,730
Earnings per share:				
Basic	$1.19	$0.22	($0.05)	$0.60
Diluted	$1.18	$0.22	($0.05)	$0.60

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

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

CEO and CFO Certifications

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

Management's Report on Internal Control Over Financial Reporting

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

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

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

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

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

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

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

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

Item 9B. Other Information.

None

Part III

Item 10. Directors, Executive Officers of the Registrant and Corporate Governanace.

The information required by this Item is incorporated herein by reference to the portions of the Proxy Statement, captioned "Proposal 1 – Election of Directors," "Information Regarding the Board of Directors and Nominees," "Corporate Governance Practices and Stockholder Communications – Nomination of Directors," "Committees of the Board – Audit Committee" and "Section 16(a) Beneficial Ownership Reporting Compliance," to be filed not later than March 31, 2009, in connection with the Company's Annual Meeting to be held on May 6, 2009.

The information required by this Item with respect to executive officers is, pursuant to instruction 3 of paragraph (b) of Item 401 of Regulation S-K, set forth in this report following Item 4, as Item 4A, under the caption "Executive Officers of the Company."

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

Item 11. Executive Compensation.

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

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

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

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

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

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

(2) All warrants were exercised in 2006.

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

None

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

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

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

1. **Financial Statements:**

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

2. **Financial Statement Schedule:**

- Report of Independent Registered Public Accounting Firm; and
- Schedule II - Valuation and Qualifying Accounts.

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

3. **Exhibits**

- Exhibit 1.1 Underwriting Agreement entered into by Chesapeake Utilities Corporation and Robert W. Baird & Co. Incorporated and A.G. Edwards & Sons, Inc., on November 15, 2007, relating to the sale and issuance of 600,300 shares of the Company's common stock, is incorporated herein by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K, filed November 16, 2007, File No. 001-11590.
- Exhibit 3.1 Restated Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.
- Exhibit 3.2 Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective December 11, 2008, are filed herewith.
- Exhibit 4.1 Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.
- Exhibit 4.2 Note Purchase Agreement, entered into by the Company on October 2, 1995, pursuant to which the Company privately placed $10 million of its 6.91% Senior Notes, due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.
- Exhibit 4.3 Note Purchase Agreement, entered into by the Company on December 15, 1997, pursuant to which the Company privately placed $10 million of its 6.85% Senior Notes due in 2012, is

not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.4 — Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed $20 million of its 7.83% Senior Notes, due in 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.
- Exhibit 4.5 — Note Agreement entered into by the Company on October 31, 2002, pursuant to which the Company privately placed $30 million of its 6.64% Senior Notes, due in 2017, is incorporated herein by reference to Exhibit 2 of the Company's Current Report on Form 8-K, filed November 6, 2002, File No. 001-11590.
- Exhibit 4.6 — Note Agreement entered into by the Company on October 18, 2005, pursuant to which the Company, on October 12, 2006, privately placed $20 million of its 5.5% Senior Notes, due in 2020, with Prudential Investment Management, Inc., is incorporated herein by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2005, File No. 001-11590.
- Exhibit 4.7 — Note Agreement entered into by the Company on October 31, 2008, pursuant to which the Company, on October 31, 2008, privately placed $30 million of its 5.93% Senior Notes, due in 2023, with General American Life Insurance Company and New England Life Insurance Company, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.
- Exhibit 4.8 — Form of Senior Debt Trust Indenture between Chesapeake Utilities Corporation and the trustee for the debt securities is incorporated herein by reference to Exhibit 4.3.1 of the Company's Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.
- Exhibit 4.9 — Form of Subordinated Debt Trust Indenture between Chesapeake Utilities Corporation and the trustee for the debt securities is incorporated herein by reference to Exhibit 4.3.2 of the Company's Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.
- Exhibit 4.10 — Form of debt securities is incorporated herein by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3A, Reg. No. 333-135602, dated November 6, 2006.
- Exhibit 10.1* — Chesapeake Utilities Corporation Cash Bonus Incentive Plan, dated January 1, 2005, is incorporated herein by reference to Exhibit 10.3 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004, File No. 001-11590.
- Exhibit 10.2* — Chesapeake Utilities Corporation Directors Stock Compensation Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005, in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.3* — Chesapeake Utilities Corporation Employee Stock Award Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005, in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.4* — Chesapeake Utilities Corporation Performance Incentive Plan, adopted in 2005, is incorporated herein by reference to the Company's Proxy Statement dated March 28, 2005, in connection with the Company's Annual Meeting held on May 5, 2005, File No. 001-11590.
- Exhibit 10.5* — Deferred Compensation Program (amended and restated as of January 1, 2009) is filed herewith.

- Exhibit 10.6* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 10.7* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and S. Robert Zola, is filed herewith
- Exhibit 10.8* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 10.9* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is filed herewith.
- Exhibit 10.10* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 10.11* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and Beth W. Cooper, is filed herewith.
- Exhibit 10.12* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 10.13* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and Michael P. McMasters, is filed herewith.
- Exhibit 10.14* Executive Employment Agreement dated December 29, 2006, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 10.15* Amendment to Executive Employment Agreement, effective January 1, 2009, by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is filed herewith.
- Exhibit 10.16* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.17* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and John R. Schimkaitis, is incorporated herein by reference to Exhibit 10.12 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.18* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.13 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.
- Exhibit 10.19* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to

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

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

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

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

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

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

/S/ RALPH J. ADKINS
Ralph J. Adkins, Chairman of the Board
and Director
Date: March 9, 2009

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

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

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

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

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

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

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

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

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

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

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

Chesapeake Utilities Corporation and Subsidiaries

Schedule II

Valuation and Qualifying Accounts

For the Year Ended December 31,	Balance at Beginning of Year	Additions: Charged to Income	Additions: Other Accounts [1]	Deductions [2]	Balance at End of Year
Reserve Deducted From Related Assets					
Reserve for Uncollectible Accounts					
2008	**$952,075**	**$1,185,906**	**$241,153**	**($1,220,120)**	**$1,159,014**
2007	$661,597	$818,561	$26,190	($554,273)	$952,075
2006	$861,378	$381,424	$65,519	($646,724)	$661,597

[1] Recoveries.

[2] Uncollectible accounts charged off.

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

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

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

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

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

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

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Chesapeake Utilities Corporation

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

Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Chesapeake Utilities Corporation

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

PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
March 9, 2009

EXHIBIT 31.1

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

I, John R. Schimkaitis, certify that:

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

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant 's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2009

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer

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

I, Beth W. Cooper, certify that:

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

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant 's internal control over financial reporting; and

The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2009

/S/ BETH W. COOPER
Beth W. Cooper
Senior Vice President and Chief Financial Officer

**CERTIFICATED OF CHIEF EXECUTIVE OFFICER
OF CHESAPEAKE UTLITIES CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PUSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, John R. Schimkaitis, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2008, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
March 9, 2009

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATED OF CHIEF FINANCIAL OFFICER
OF CHESAPEAKE UTLITIES CORPORATION
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PUSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Beth W. Cooper, Senior Vice President and Chief Financial Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Annual Report on Form 10-K of Chesapeake Utilities Corporation ("Chesapeake") for the year ended December 31, 2008, filed with the Securities and Exchange Commission on the date hereof (i) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (ii) the information contained therein fairly presents, in all material respects, the financial condition and results of operations of Chesapeake.

/S/ BETH W. COOPER
Beth W. Cooper
March 9, 2009

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Chesapeake Utilities Corporation and will be retained by Chesapeake Utilities Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

Upon written request, Chesapeake will provide, free of charge, a copy of any exhibit to the 2008 Annual Report on Form 10-K not included in this document.

Exhibit C

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF DELAWARE

IN THE MATTER OF THE APPLICATION OF CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL OF THE ISSUANCE OF LONG-TERM DEBT (FILED SEPTEMBER 29, 2008)	))))	PSC DOCKET NO. 08-305

ORDER NO. 7464

This 23rd day of October, 2008, the Delaware Public Service Commission ("the Commission") determines and orders the following:

1. On September 29, 2008, Chesapeake Utilities Corporation ("Chesapeake" or "the Company") filed an application with the Commission requesting approval, under 26 Del. C. § 215(e), for issuance of up to $10,000,000 of Chesapeake unsecured long-term debt securities. The Company plans to issue a total of $30,000,000 in unsecured long-term debt securities, with $20,000,000 already previously approved by the Commission by Order No. 7065 (Oct. 31, 2006) in PSC Docket No. 06-339.

2. Under 26 Del. C. § 215(e)(2), the Commission may investigate and hold such hearings in this matter as it deems necessary and, thereafter, may approve the plan in whole or in part with such modification and upon such terms and conditions as it deems appropriate. Section 215(e)(2) further requires the Commission to approve any financing plan when the proposed financings are to be made in accordance with law, for proper purposes, and are consistent with the public interest. The Commission may also review the plan for consistency with efficient and reasonable financing principles.

3. Under 26 Del. C. § 215(e)(2), the Commission may require Chesapeake to file periodic reports as to the action taken pursuant to the plan. Section 215(e)(2) further requires the Commission to approve, modify, refuse, or prescribe appropriate terms and conditions with respect to any such plan within 30 days of its filing. In the absence of such action within 30 days, the proposed financing plan will be deemed to be approved as filed as if the Commission itself had acted favorably thereon.

4. The Commission Staff has reviewed and examined the proposed financing plan and the schedules and exhibits appended thereto, and determines that the proposed plan is consistent with efficient and reasonable financing principles, is for a proper purpose, and is consistent with the public interest. Accordingly, Staff recommends that the Commission approve Chesapeake's proposed financing plan. Staff further recommends that the Commission direct Chesapeake to file the Company's current loan agreement within 30 days of closing the debt transaction with Metropolitan Life Insurance Company.

Now, therefore, IT IS ORDERED:

1. That, the Commission having independently reviewed this matter and having determined that public notice and hearing are not required, finds that the application for approval of the issuance of long-term debt filed by Chesapeake Utilities Corporation with the Commission on September 29, 2008 is consistent with efficient and reasonable financing principles, is for a proper purpose, is in accordance with law, is consistent with the public interest, and is, therefore, hereby approved.

2. That, nothing in this Order shall be construed as a guarantee, warranty, or representation by the State of Delaware or by any agency, commission, or department thereof with respect to the indebtedness of Chesapeake Utilities Corporation, which may be issued or incurred under the financing plan herein approved.

3. That, Chesapeake Utilities Corporation shall file the current loan agreement for the Application within 30 days following the closing of its debt transaction with Metropolitan Life Insurance Company.

4. That the Commission reserves the jurisdiction and authority to enter such further Orders in this matter as may be deemed necessary or proper.

BY ORDER OF THE COMMISSION:

Arnetta McRae
Chair

Commissioner

Commissioner

Commissioner

Commissioner

ATTEST:

Karen J. Nickerson
Secretary

Exhibit D

CHESAPEAKE
UTILITIES CORPORATION

DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

PROSPECTUS

JANUARY 5, 2009

CPK
LISTED
NYSE

CHESAPEAKE
UTILITIES CORPORATION

PROSPECTUS

CHESAPEAKE UTILITIES CORPORATION
DIVIDEND REINVESTMENT AND DIRECT STOCK PURCHASE PLAN

631,756 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 the Corporation's Dividend Reinvestment and Direct Stock Purchase Plan (the "Plan"). The Corporation's 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 broker fees.

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

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 4 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 January 5, 2009.

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

We are a diversified utility company engaged directly or through subsidiaries in natural gas distribution, transmission and marketing, propane distribution and wholesale marketing, advanced information services and other related businesses. We are a Delaware corporation that was formed in 1947. As of September 30, 2008, our three natural gas distribution divisions served approximately 64,100 residential, commercial and industrial customers in central and southern Delaware, Maryland's Eastern Shore and parts of Florida. Our natural gas transmission subsidiary, Eastern Shore Natural Gas Company, operates a 370-mile interstate pipeline system that transports gas from various points in Pennsylvania to our Delaware and Maryland distribution divisions, as well as to other utilities and industrial customers in southern Pennsylvania, Delaware and on the Eastern Shore of Maryland. As of September 30, 2008 our propane distribution operation served approximately 35,000 customers in central and southern Delaware, the Eastern Shore of Maryland and Virginia, southeastern Pennsylvania, and parts of Florida; and our wholesale propane marketing subsidiary markets propane to large independent and petrochemical companies, resellers and retail propane companies in the United States. Our advanced information services segment provides domestic and international clients with information technology-related business services and solutions for both enterprise and e-business applications. 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 relating to the offer and sale of up to 631,756 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 $60,000 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 $1,000, up to a maximum amount of $60,000.

- Plan participants, other registered stockholders and new investors may, at the Corporation's sole discretion, make optional cash investments in excess of the maximum annual limit of $60,000, if the Corporation grants a "Request for Waiver."

- 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 the Corporation 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

The following is a discussion of the primary factors that may affect the operations or financial performance of the regulated and unregulated businesses of the Corporation. Before purchasing the shares offered by this Prospectus, you should carefully consider the risks described below, in addition to the other information presented in this Prospectus or incorporated by reference into this Prospectus. If any of the following risks actually occur, they could seriously harm our business, financial condition, results of operations or cash flows. This could cause the trading price of our common stock to decline and you could lose all or part of your investment. The financial, operational, regulatory and legal, and environmental factors that affect the operations and/or financial performance of the Corporation include:

Financial Risks

Inability to access capital markets may impair our future growth.
We rely on access to both short-term and long-term capital markets as a significant source of liquidity for capital requirements not satisfied by the cash flow from our operations. We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. However, if we are not able to access capital at competitive rates, our ability to implement our strategic plan, undertake improvements and make other investments required for our future growth may be limited.

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

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

A change in economic conditions and interest rates may adversely affect our results of operations and cash flows.
A downturn in the economies of the regions in which we operate, which we cannot accurately predict, might adversely affect our business with existing customers and our ability to increase our customer bases and cash flows at the same rates by which they have grown in the recent past. Further, an increase in interest rates, without the recovery of the higher cost of debt in the sales and/or transportation rates we charge our utility customers, could adversely affect future earnings. An increase in short-term interest rates would negatively affect our results of operations, which depend on short-term borrowing to finance accounts receivable and storage gas inventories, and to temporarily finance capital expenditures.

Inflation may impact our results of operations, cash flows and financial position.
Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. While the impact of inflation has remained low in recent years, natural gas and propane prices are subject to rapid fluctuations. To help cope with the effects of inflation on our capital investments and returns, we seek rate relief from regulatory commissions for regulated operations and closely monitor the returns of our unregulated business operations. There can be no assurance that we will be able to obtain adequate and timely rate relief to offset the effects of inflation. To compensate for fluctuations in propane gas prices, we adjust our propane selling prices to the extent allowed by the market. However, there can be no assurance that we will be able to increase propane sales prices sufficiently to compensate fully for such fluctuations in the cost of propane gas to us.

Instability and volatility in the financial markets could have a negative impact on our growth strategy.

Our business strategy has included, and will continue to include, growth both organically and through acquisitions. To the extent we do not generate sufficient cash from operations, we may need to incur additional indebtedness to finance our plans for growth. Recent turmoil in the credit markets and the potential impact on the liquidity of major financial institutions may have an adverse effect on our customers and our ability to fund our business strategy through borrowings, under either existing or newly created instruments in the public or private markets on terms we believe to be reasonable.

Recent government actions to stabilize credit markets and financial institutions may not be effective and could adversely affect our competitive position.

The U.S. Government recently enacted legislation and created several programs to help stabilize credit markets and financial institutions and restore liquidity, including the Emergency Economic Stabilization Act of 2008, the Federal Reserve's Commercial Paper Funding Facility (CPFF) and Money Market Investor Funding Facility and the Federal Deposit Insurance Corporation's (FDIC) Temporary Liquidity Guarantee Program. There is no assurance that these programs individually or collectively will have beneficial effects in the credit markets, will address credit or liquidity issues of companies that participate in the programs or will reduce volatility or uncertainty in the financial markets. The failure of these programs to have their intended effects could have a material adverse effect on the financial markets, which in turn could materially and adversely affect our business, financial condition and results of operations.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing extreme volatility and disruption for more than 12 months. In recent months, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers. If current levels of market disruption and volatility continue or worsen, we would seek to meet our liquidity needs by drawing upon contractually committed lending agreements primarily provided by banks and/or by seeking other funding sources. However, under such extreme market conditions, there can be no assurance such agreements and other funding sources would be available or sufficient.

Difficult conditions in the financial services markets have materially and adversely affected the business and results of operations of many financial institutions and we do not know when and if these conditions may improve in the near future.

Dramatic declines in the housing market during the prior year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail. Many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally.

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

Operational Risks

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

Changes in customer growth may affect earnings and cash flows.
Our ability to increase our gross margins in our regulated and propane businesses is dependent upon the new construction housing market, adding new industrial customers and conversion of customers to natural gas or propane from other fuel sources. Slowdowns in these markets, particularly the new housing construction market which is experiencing a significant business downturn, could adversely affect our gross margin in our regulated or propane businesses, our earnings and cash flows.

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

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

Natural gas and propane commodity price changes may affect the operating costs and competitive positions of our natural gas and propane distribution operations, which may adversely affect our results of operations, cash flows and financial condition.

Natural Gas. Over the last four years, natural gas costs have increased significantly, due to increased demand, and have become more volatile, due to events such as the hurricane activity in 2005, which reduced the natural gas available from the Gulf Coast region and caused a spike in natural gas prices. Higher natural gas prices can result in significant increases in the cost of gas billed to customers. Under our regulated gas cost recovery mechanisms, an increase in the cost of gas due to an increase in the price of the natural gas commodity generally has no immediate effect on our revenues and net income. Our net income, however, may be reduced by higher expenses that we may incur for uncollectible customer accounts and by lower volumes of natural gas deliveries as a result of customers reducing their consumption. Therefore, increases in the price of natural gas can affect our operating cash flows and the competitiveness of natural gas as an energy source.

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

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

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

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

In our natural gas marketing business, we compete with third-party suppliers to sell gas to commercial and industrial customers. In our gas transportation and distribution operations, our competitors include interstate pipelines, when distribution customers are located close enough to the transmission company's pipeline to make direct connections economically feasible.

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

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

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

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

Our energy marketing subsidiaries have credit risk and credit requirements that may adversely affect our results of operations, cash flows and financial condition.
Xeron, our propane wholesale and marketing subsidiary, and PESCO, our natural gas marketing subsidiary, extend credit to counter-parties. While we believe Xeron and PESCO utilize prudent credit policies, each of these subsidiaries is exposed to the risk that it may not be able to collect amounts owed to it. If the counter-party to such a transaction fails to perform, and any underlying collateral is inadequate, we could experience financial losses.

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

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

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

Regulatory and Legal Risks

Regulation, including changes in the regulatory environment, may adversely affect our results of operations, cash flows and financial condition.
The Delaware, Maryland and Florida Public Service Commissions regulate our natural gas distribution operations; Eastern Shore Natural Gas Company, our natural gas transmission subsidiary, is regulated by the Federal Energy Regulatory Commission. These commissions set the rates that we can charge customers for services subject to their regulatory jurisdiction. Our ability to obtain timely future rate increases and rate supplements to maintain current rates of return depends on regulatory approvals, and there can be no assurance that our divisions and Eastern Shore Natural Gas Company will be able to obtain such approvals or maintain currently authorized rates of return.

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

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

Environmental Risks

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

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

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

USE OF PROCEEDS

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

DETERMINATION OF OFFERING PRICE

The purchase price per share of common stock purchased from the Corporation (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 shares of common stock be sold by the Corporation under the Plan at less than the par value per share.

The price per share of the Corporation's 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.

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 the Corporation.

Initial Investment	$10 Administration Fee
Dividend Reinvestment	Paid by Corporation
Direct Deposit of Dividends	Paid by Corporation
Optional Cash Investments	Paid by Corporation
Automatic Debiting for Optional Cash Investments	Paid by Corporation
Sale of Stock/Termination	Brokerage Commission of $0.15/share

Fees Associated With the Plan (continued)

Safekeeping	Paid by Corporation
Book Transfers	Paid by Corporation
Request for Certificate	Paid by Corporation
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 the Corporation's 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 a service fee. A new investor may become a stockholder by making an initial minimum investment of $1,000. 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 $60,000 if the Company 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. The Corporation may direct the Plan Administrator to purchase shares either in the open market or from the Corporation to satisfy the requirements of the Plan. Shares purchased from the Corporation will provide the Corporation 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 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 $60,000 per calendar year.

- Investors who currently do not own shares of Chesapeake common stock can become Plan participants by making an initial investment of at least $1,000, up to a maximum amount of $60,000.

- 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 the Corporation 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):

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

Telephone: 877.498.8865

Internet: www.computershare.com/investor

All checks for optional cash investments, and 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

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

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 the Corporation.

4. What are the limitations on the responsibilities of the Corporation and the Plan Administrator under the Plan?

Neither the Corporation 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 the Corporation 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.

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

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.

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 $1,000, up to a maximum amount of $60,000. New investors also can make optional cash investments in excess of the $60,000 maximum if the Corporation initiates a Request for Waiver. See Question No. 18. Any amounts of less than $1,000 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.

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 and following the instructions provided.

Prospective Plan participants are urged to read this Prospectus in its entirety before making an investment decision to purchases 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 administrative 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 $1,000, from which the $10 fee will be subtracted, leaving $990 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?

(a) "FULL DIVIDEND REINVESTMENT" 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" 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.

(c) "ALL CASH (NO DIVIDEND REINVESTMENT)" 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.

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 the Corporation 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 $60,000 Per Calendar Year

14. How does the optional cash investment feature work for investments up to $60,000 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 $60,000 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.

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 the Corporation 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 $60,000

18. Under what circumstances may stockholders and new investors make cash investments in excess of $60,000 per calendar year?

Optional cash investments in Chesapeake common stock in excess of $60,000, including initial investments in excess of $60,000, may be made by current stockholders (including Plan participants) and new investors only if a waiver of the $60,000 limit is granted by the Corporation. The Corporation, in its sole discretion, may elect, from time to time or on a periodic schedule as determined by the Corporation, to initiate the procedures by which stockholders and new investors can request a waiver of the $60,000 limit (a "Request for Waiver"). All shares purchased pursuant to a Request for Waiver will be sold by the Corporation. The Corporation has established the following procedures governing Requests for Waiver.

Submitting a Request for Waiver

On the first business day of each month, the Corporation will post a prerecorded telephone message (telephone number: 302.734.6019) either (i) announcing that the Corporation 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 the Corporation will be accepting Requests for Waiver for that month. If in the initial or a subsequent announcement the Corporation 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 the Corporation will announce the commencement date and number of trading days in the pricing period;
- the threshold price, if the Corporation determines that the proposed sale of shares will be subject to a threshold price, or the date on which the Corporation 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 the Corporation 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 the Corporation will announce whether shares are being offered at a discount to the market price and, if so, what percentage.

All announcements by the Corporation 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 the Corporation must complete and submit a Request for Waiver form to the Corporation indicating the dollar amount proposed to be invested. All Requests for Waiver must be received by the Corporation 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.

The Corporation 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 the Corporation 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 the Corporation. 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, the Corporation 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 the Corporation is willing to accept for any investment date, the Corporation may honor the requests received on any basis that the Corporation, in its sole discretion, considers appropriate. The Corporation 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 the Corporation nor the Plan Administrator is required to provide written or other notice of the decision of the Corporation to receive the submission of Requests for Waiver or the terms on which shares of common stock are being offered. However, the Corporation 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, the Corporation reserves the right to terminate any account or deny any Request for Waiver if the Corporation 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 the Corporation or which may cause the participant to be treated as an underwriter under the Federal securities laws.

Pricing Period

The Corporation 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 the Corporation 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 the Corporation 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 the Corporation.

Threshold Price

The Corporation 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. The Corporation 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 the Corporation 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 the Corporation has established a ten-day pricing period and has granted a Request for Waiver for an investment of $100,000. Further, assume that the Corporation 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 the Corporation will be calculated by dividing the permitted investment amount, $80,000, by the purchase price (or discounted purchase price, if applicable).

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

The Corporation may elect in connection with purchases pursuant to Requests for Waiver during any pricing period whether to activate the optional pricing extension feature. The Corporation 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 the Corporation 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

The Corporation 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. The Corporation 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.

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

The Plan Administrator will accept the following methods of payment for optional cash investments of $60,000 or less. Instruction for the submission of payment for investments pursuant to Requests for Waiver has been previously discussed in Question No. 18.

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 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.

Optional Cash Investments Through Payroll Deductions

20. Can an employee of the Corporation or its subsidiaries make optional cash investments through payroll deductions?

Yes. Any employee of the Corporation 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 the Corporation 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 $60,000. The initial purchase minimum amount of $1,000 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?

The Corporation 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 the Corporation 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 the Corporation 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.

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 the Corporation's discretion, (i) from the Corporation (in which event the shares will be either authorized but unissued shares or shares held in the treasury of the Corporation), (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 the Corporation.

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 the Corporation (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 the Corporation 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.

These statements are a participant's continuing record of the cost of shares of Chesapeake common stock purchased under the Plan, and the last cumulative statement for each year should be retained for income tax purposes.

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 the Corporation'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 the Corporation.

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.

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 the Corporation terminate a participant's participation in the Plan?

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

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.

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 the Corporation 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 the Corporation 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 the Corporation's stockholders, a participant will receive either a paper copy of the Corporation'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 the Corporation's Proxy Materials, it will include instructions on how to access the Corporation'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 the Corporation's proxy materials.

43. May the Corporation amend or discontinue the Plan?

Yes. Notwithstanding any other provision of the Plan, the Corporation 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.

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. The Corporation 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 the Corporation 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?

The Corporation 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 the Corporation's judgment, contravene or be restricted by applicable law of the rules, regulations, interpretations or orders of the Securities and Exchange Commission, any other governmental agency, commission or instrumentality, any court or any securities exchange. Neither the Corporation 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 the Corporation. 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 the Corporation or the Plan Administrator in connection with the purchase of shares will be taxed as a dividend to the participant.

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 the Corporation 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 the Corporation. 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. The Corporation 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 the Corporation) 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.

DESCRIPTION OF SECURITIES

Chesapeake's authorized capital stock consists of 12,000,000 shares of common stock, par value $0.4867 per share, and 2,000,000 shares of preferred stock, par value $0.01 per share.

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 the Corporation's 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 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 the Corporation has been passed upon by Baker & Hostetler LLP, Orlando, Florida.

EXPERTS

The consolidated financial statements and schedule as of December 31, 2007 and for the year ended December 31, 2007 and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2007 incorporated by reference in this Prospectus have been so incorporated in reliance on the reports of Beard Miller Company LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

The consolidated balance sheet as of December 31, 2006, and the related consolidated statements of income, comprehensive income, cash flows, stockholders' equity and income taxes for each of the two years in the period ended December 31, 2006 included in our Annual Report on Form 10-K as of December 31, 2007, incorporated by reference in this Prospectus, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, 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 Securities and Exchange Commission (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. Information about us, including our filings, is also available on our website at 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, 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, 2007;

(b) Chesapeake's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2008, June 30, 2008, and September 30, 2008;

(c) Chesapeake's Current Reports on Form 8-K filed January 24, 2008, March 6, 2008, May 5, 2008, August 11, 2008, September 12, 2008, September 15, 2008, October 17, 2008, October 31, 2008, November 6, 2008, November 7, 2008 and December 16, 2008; and

(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 the Corporation'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 the Corporation is entitled to indemnification by the Corporation 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, including liabilities arising under the Securities Act of 1933, as amended. These indemnification rights include the right to be paid by the Corporation the expenses incurred in defending any action, suit or proceeding in advance of its final disposition, subject to the receipt by the Corporation 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.

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 the Corporation, 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 the Corporation (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.

The Corporation has in effect liability insurance policies covering certain claims against any director or officer of the Corporation 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.

Article Eleven of the Company's Certificate of Incorporation provides that a director of the Corporation shall not be personally liable to the Corporation 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 the Corporation 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.