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September 23, 1998

RECEIVED-FPSC
98 SEP 23 AM 11:06
RECORDS AND REPORTING

Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

HAND DELIVERY

981213-GU

Re: Petition by Chesapeake Utilities Corporation for Approval to Issue Common Stock and Secured and/or Unsecured Debt and to Exceed Limitation Placed on Short-Term Borrowings in 1999

Dear Ms. Bayo:

Enclosed for filing on behalf of Chesapeake Utilities Corporation for filing in the above docket are an original and five (5) copies of the above-referenced petition.

Please open a docket for processing this petition.

Please acknowledge receipt of the foregoing by stamping the enclosed extra copy of this letter and returning same to my attention.

Thank you for your assistance.

Sincerely,

Wayne L. Schiefelbein

WLS/ka
Enclosures
cc: Robert V. Elias, Esq. (w/out encl.)
Beth Salak (w/out encl.)

DOCUMENT NUMBER-DATE
10521 SEP 23 98
FPSC-RECORDS/REPORTING

TAL:18717:1

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Chesapeake Utilities)
Corporation for Approval to Issue Common)
Stock and Secured and/or Unsecured Debt)
and to Exceed Limitation Placed on Short-)
Term Borrowings in 1999)

981213-GU

PETITION BY CHESAPEAKE UTILITIES CORPORATION FOR APPROVAL TO ISSUE COMMON STOCK AND SECURED AND/OR UNSECURED DEBT AND TO EXCEED LIMITATION PLACED ON SHORT-TERM BORROWINGS IN 1999

Chesapeake Utilities Corporation (Chesapeake, the Company or Petitioner) respectfully files this Petition, pursuant to Section 366.04 (1), Florida Statutes, seeking authority to issue up to 5,000,000 shares of Chesapeake common stock and $70,000,000 in secured and/or unsecured debt and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $40,000,000.

1. Name and principal business offices of Petitioner:

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

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

and

(c) Chesapeake Utilities Corporation
Florida Division
1514 Alexander Street, Suite 107
Plant City, Florida 33566

DOCUMENT NUMBER-DATE
10521 SEP 23 98
FPSC-RECORDS/REPORTING

2. Incorporated:

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

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

Wayne L. Schiefelbein
Ruden, McClosky, Smith, Schuster & Russell, P.A.
215 South Monroe Street
Suite 815
Tallahassee, Florida 32301
(850) 681-9027

Attorneys for Chesapeake Utilities Corporation

4. Capital Stock and Funded Debt:

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

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

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

(c) Amount outstanding as of June 30, 1998: 5,059,373 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by petitioner: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

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

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

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

(c) Amount outstanding as of June 30, 1998: 0 shares.

(d) Amount held in Treasury: None.

(e) Amount pledged by petitioner: None.

(f) Amount owned by affiliated corporations: None.

(g) Amount held in any fund: None.

The funded indebtedness by class and series are as follows:

(a)1 8.25% Convertible Debentures due March 1, 2014 are convertible prior to maturity, unless previously redeemed, into shares of common stock of Chesapeake at a conversion price of $17.01 per share. Interest on the Debentures is payable on the first day of March and September, commencing September 1, 1989. The Debentures are redeemable at 100% of the principal amount plus accrued interest (i) on March 1 in any year, commencing in 1991, at the option of the holder and (ii) at any time within 60 days after a request on behalf of a deceased holder. At Chesapeake's option, beginning March 1, 1990, the Debentures may be redeemed in whole or in part at redemption prices declining from 107.25%, plus accrued interest. No sinking fund will be established to redeem the Debentures. As of June 30, 1998, there is a remaining balance of $3,852,000 on this issue.

(a)2 9.37% First Mortgage Sinking Fund Bonds, Series I, due December 15, 2004, issued on December 15, 1989, and secured by the Original Indenture dated as of December 1, 1959 between Chesapeake and Maryland National Bank in the principal amount of $8,200,000 bearing interest payable semi-annually with provisions for payment of interest only prior to December 15, 1991; thereafter, principal shall be payable, in addition to interest on the unpaid balance, on or before the fifteenth days of December and June in each year (a) commencing on December 15, 1991, and ending on December 15, 1999, in the sum of $260,000 and (b) commencing on June 15, 2000, and ending on June 15, 2004, in the sum of $378,000. As of June 30, 1998, there is a remaining balance of $4,560,000 on this issue.

(a)3 7.97% Unsecured Senior Notes due February 1, 2008, and issued on February 9, 1993 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to February 1, 1999; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 1998, there is a remaining balance of $10,000,000 on this issue.

(a)4 6.91% Unsecured Senior Notes due October 1, 2010, and issued on October 2, 1995 in the principal amount of $10,000,000 bearing interest payable quarterly with provisions for payment of interest only prior to October 1, 2000; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over eleven (11) years at the rate of $909,091 per annum. As of June 30, 1998, there is a remaining balance of $10,000,000 on this issue.

(a)5 6.85% Unsecured Senior Notes due January 1, 2012 and issued on December 15, 1997 in the principal amount of $10,000,000 bearing interest payable semi-annually with provisions for payment of interest only prior to January 1, 2003; thereafter, principal shall be payable, in addition to interest on the unpaid balance, over ten (10) years at the rate of $1,000,000 per annum. As of June 30, 1998, there is a remaining balance of $10,000,000 on this issue.

(a)6 As of the filing date, the Company had four unsecured bank lines of credit. Three of these lines were $8,000,000, while the remaining line was $10,000,000. As of June 30, 1998, there was $2,100,000 outstanding on these lines of credit.

Chesapeake's unregulated subsidiary, Xeron, Inc. ("Xeron"), which was purchased on May 29, 1998, also had a $5,000,000 secured line of credit in place as of the filing date. The Company will be cancelling this line of credit prior to December 31, 1998, in conjunction with other integration steps that are being taken. Xeron's line of credit had been inactive for several years and was primarily maintained to guarantee letters of credit issued by Xeron. One of the Company's existing $8,000,000 unsecured lines of credit will be increased to $10,000,000 in conjunction with Xeron's line of credit being cancelled and $5,000,000 of this line will be earmarked and available to guarantee future Xeron letters of credit.

(b) The amounts authorized are set forth above.

(c) The amounts presently outstanding are set forth above.

(d) Amount held as reacquired securities: None.

(e) Amount pledged by petitioner: None.

(f) Amount owned by affiliated corporations: None.

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

(h) On January 2, 1998, the final payment ($62,500) on the variable rate (73.32% of prime rate) First Mortgage Sinking Fund Bonds, Series G was made. On October 3, 1997, the remaining balance ($14,868) of the 12.00% Mortgage of Skipjack, Inc. was prepaid by the Company.

5. Proposed transactions:

Chesapeake proposes to issue up to 731,034 new shares of its common stock for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan and conversion of the Company's Convertible Debentures. The share breakdown for each specific purpose is as follows:

Number of Shares	Purpose
45,082	Reserved for issuance pursuant to the Company's Retirement Savings Plan.
173,771	Reserved for issuance under the terms of the Company's Performance Incentive Plan.
285,726	Reserved for issuance pursuant to the Company's Automatic Dividend Reinvestment and Stock Purchase Plan.
226,455	Reserved for issuance under the terms of the Company's outstanding 8 1/4% Convertible Debentures.

For 1999, Chesapeake intends to issue up to $30,000,000 in secured and/or unsecured debt for general corporate purposes including, but not limited to, working

capital, retirement of short-term debt, retirement of long-term debt and capital improvements. In addition, Chesapeake intends to continue its historically aggressive acquisition program. For this purpose, Chesapeake is projecting financing needs for possible acquisitions of up to 4,268,966 shares of common stock and up to $40,000,000 in secured and/or unsecured debt. Due to the nature of typical cash for stock acquisitions, the $40,000,000 in secured and/or unsecured debt may be initially issued through a bridge loan in the form of notes held by banks or some similar form of short-term obligations.

For this reason, Chesapeake seeks FPSC approval to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue short-term obligations in an amount not to exceed $40,000,000. The bridge financing would subsequently be refinanced as unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life.

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

(a) Chesapeake's Retirement Savings Plan ("RSP") was implemented on February 1, 1977. As of June 30, 1998, the RSP had 360 Chesapeake employee participants and a total market valuation of $11,696,038. A true and correct copy of the RSP has been previously filed with the FPSC as Exhibit E of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. Pursuant to the RSP, all employer matching

contributions made on behalf of the participants are invested in common stock of Chesapeake; as of June 30, 1998, 220,612 shares were held by the RSP. In administering the RSP, the RSP's Trustee has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt.

On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 100,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's RSP. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of the Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. Pursuant to this Order, Chesapeake has issued 54,918 new shares of common stock for the RSP as of June 30, 1998.

Thus, there remains to be issued 45,082 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 68,207 shares of common stock for the Plan during 1998 by Order No. PSC-97-1538-FOF-GU, issued December 8, 1997. Chesapeake now seeks FPSC approval to issue up to 45,082 new shares of Chesapeake common stock

for the purpose of administering Chesapeake's Retirement Savings Plan during 1999.

(b) On May 19, 1992, the common stock shareholders of Chesapeake voted in favor of adopting the Chesapeake Utilities Corporation Performance Incentive Plan ("PIP"). On May 19, 1998, the common stock shareholders of Chesapeake approved several amendments to the PIP. A copy of the amended PIP agreement is filed with the FPSC herewith as Exhibit C.

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

To accomplish these objectives, the PIP authorizes the grant of nonqualified stock options, performance shares of the Company's common stock and stock appreciation rights, or any combination thereof. The PIP, as it was originally adopted by the common stock shareholders of Chesapeake in 1992, provided that over a ten year period beginning in 1992, any one or more types of awards for up to a total of 200,000 shares of Chesapeake's common stock may be granted. On June 23, 1992, the Delaware Public Service Commission issued Order No. 3425 approving the issuance of up to 200,000 new shares of

Chesapeake common stock for the purpose of administering Chesapeake's PIP. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The amendments to the PIP adopted by the common stock shareholders of Chesapeake on May 19, 1998 change the terms and provisions of the PIP as follows: (1) the aggregate number of shares of common stock subject to awards is increased from 200,000 shares to 400,000 shares; (2) the term of the PIP is extended for five years through December 31, 2006; and (3) the Board of Directors is granted greater flexibility to amend, modify or terminate the PIP, subject to shareholder approval requirements imposed by applicable law. Chesapeake intends to file the amended PIP agreement with the Delaware Public Service Commission before the end of 1998.

Pursuant to the PIP, Chesapeake has issued 26,229 new shares of common stock as June 30, 1998. Thus, there remains to be issued 173,771 shares as previously authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 198,137 shares of common stock for the PIP during 1998 by Order No. PSC-97-1538-FOF-GU, issued December 8, 1997. Chesapeake now seeks FPSC approval to issue up to

173,771 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Performance Incentive Plan during 1999. The 173,771 shares should be adequate to cover any awards granted to executives and other key officers of the Company and its subsidiaries in 1999.

(c) Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan ("DRP") was implemented on April 27, 1989. The DRP Administrator currently has the flexibility of purchasing shares of Chesapeake common stock on the open market, using Treasury stock or issuing new common stock. The gradual issuance of new common stock enables Chesapeake to balance the composition of its capital between common stock and long-term debt. As of June 30, 1998, the DRP had 1,299 stockholder participants.

A copy of the DRP as filed on Registration Statement Form S-3 with the Securities and Exchange Commission has been previously filed with the FPSC in Exhibit D of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. On May 23, 1989, the Delaware Public Service Commission issued Order No. 3071 approving the issuance of up to 200,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval

of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference. On December 20, 1995, the Delaware Public Service Commission issued Order No. 4097 approving the issuance of an additional 300,000 new shares of Chesapeake common stock for the purpose of administering Chesapeake's DRP. Please note that this Order by the Delaware Public Service Commission is "open ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit E of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 961194-GU, dated October 1, 1996, and is hereby incorporated by reference. Pursuant to the Orders above, Chesapeake has issued 214,274 new shares of common stock as of June 30, 1998. Thus, there remains to be issued 285,726 shares as authorized by the Delaware Public Service Commission. The FPSC approved the issuance and sale of up to 316,976 shares for the DRP during 1998 by Order No. PSC-97-1538-FOF-GU, issued on December 8, 1997. Chesapeake now seeks FPSC approval to issue up to 285,726 new shares of Chesapeake common stock for the purpose of administering Chesapeake's Automatic Dividend Reinvestment and Stock Purchase Plan during 1999.

(d) On April 4, 1989, Chesapeake issued $5,000,000 in 8.25% Convertible Debentures as part of a public offering. As of June 30, 1998, $3,852,000 remained outstanding with a conversion price of $17.01 per share. Hence, the

maximum number of shares of common stock that could be issued upon conversion is 226,455. A true and correct copy of the Registration Statement on Form S-2 dated February 16, 1989, as filed with the Securities and Exchange Commission, has been previously filed with the FPSC as Exhibit I of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

The Debentures have a conversion premium greater than the offering price of the common stock issue, no mandatory sinking fund, and became callable after one year at a premium equal to the interest rate less 1%, declining 1/2% per year thereafter. There is an optional bondholder redemption feature which allows any debentureholder to present any Debenture for redemption, at par, on the anniversary date of the issue, subject to annual limitations of $10,000 per debentureholder and $200,000 in the aggregate. These optional redemption rights began on April 1, 1991. In addition, subject to the annual limitations of $10,000 per debentureholder and $200,000 in the aggregate, Chesapeake will redeem the Debentures of deceased debentureholders within 60 days of notification. Such redemption of estate Debentures shall be made prior to other Debentures.

On February 14, 1989, the Delaware Public Service Commission issued Order No. 3040 approving the issuance of $5,000,000 in Convertible Debentures and, inherently, their potential conversion into Chesapeake common stock.

Please note that this Order by the Delaware Public Service Commission is "open-ended" in the sense that there is no time limit by which the approved securities need to be issued. A copy of this Order has been previously filed with the FPSC in Exhibit J of the Petition for Approval of Issuance and Sale of Securities by Chesapeake Utilities Corporation, Docket No. 931112-GU, dated November 17, 1993, and is hereby incorporated by reference.

As of the date of this filing, a cumulative $250,000 of the Convertible Debentures had been converted. The FPSC approved the issuance and sale of up to 239,976 new shares of Chesapeake common stock for the purpose of honoring conversion rights pursuant to the Company's Convertible Debentures during 1998, by Order No. PSC-97-1538-FOF-GU, issued on December 8, 1997. Chesapeake now seeks FPSC approval to issue up to 226,455 new shares of Chesapeake common stock for the purpose of honoring these conversion rights during 1999.

(e) Chesapeake seeks FPSC approval to issue up to $30,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. Proceeds from this debt issuance would be used for general corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. The FPSC approved the issuance and sale of $30,000,000 in

secured and/or unsecured long-term debt during 1998 by Order No. PSC-97-1538-FOF-GU, issued on December 8, 1997.

(f) Chesapeake seeks FPSC approval to issue up to 4,268,966 shares of common stock and $40,000,000 in secured and/or unsecured long-term debt with an estimated rate of interest of up to 250 basis points above U.S. Treasury rates (or extrapolated U.S. Treasury rates) with equivalent average life. This stock and debt would be used to finance Chesapeake's ongoing acquisition program of related businesses. Chesapeake intends to continue to search for growth opportunities through acquisitions which fit its long-range plan to achieve the proper mix of business activities. Financing of acquisitions will depend upon the nature and extent of potential acquisitions as well as current market and economic conditions.

The FPSC approved the issuance and sale of 4,176,704 shares of common stock and $40,000,000 in unsecured long-term debt during 1998 by Order No. PSC-97-1538-FOF-GU, issued on December 8, 1997.

7. Lawful object and purpose:

The common stock and long-term debt issued will be used for the purpose of administering Chesapeake's Retirement Savings Plan, Performance Incentive Plan, Automatic Dividend Reinvestment and Stock Purchase Plan, conversion of the Company's Convertible Debentures, financing of the Company's acquisition program and for other corporate purposes including, but not limited to, working capital, retirement of short-term debt, retirement of long-term debt and capital improvements. This is for

a lawful object within the corporate purposes of Chesapeake and compatible with the public interest and is reasonably necessary or appropriate for such purposes.

8. Counsel:

The legality of the common stock and debt issuances will be passed upon by William A. Denman, Esquire, Schmittinger & Rodriguez, 414 South State Street, P.O. Box 497, Dover, Delaware 19903, who will rely on Wayne L. Schiefelbein, Esquire; Ruden, McClosky, Smith, Schuster & Russell, P.A.; 215 South Monroe Street, Suite 815; Tallahassee, Florida 32301, as to matters of Florida law.

9. Other Regulatory Agencies:

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

The address of the Delaware Commission is as follows:

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

10. <u>Control or ownership:</u>

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

11. <u>Exhibits:</u>

The following exhibits submitted with Petitioner's Petition in Docket Nos. 961194-GU and 931112-GU, respectively, are incorporated in the instant Petition by reference:

<u>Docket No. 961194-GU</u>

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

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

<u>Docket No. 931112-GU</u>

Exhibit E: Chesapeake Utilities Corporation's Retirement Savings Plan.

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

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

Filed herewith:

Exhibit A: Exhibit A consists of the following attachments:

A(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 1997.
A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

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

Exhibit C: Chesapeake Utilities Corporation's Amended Performance Incentive Plan.

12. Constitutionality of Statute:

The statutory requirement of FPSC approval of the issuance and sale of securities by a public utility, under Section 366.04 (1), Florida Statutes, as applied to Chesapeake, a Delaware corporation engaged in interstate commerce, is unconstitutional, in that it creates an unreasonable burden on interstate commerce. Support for this position is set out in Chesapeake's petition for declaratory statement disclaiming jurisdiction, as filed in FPSC Docket No. 930705-GU.

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

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

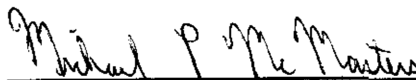
Florida law provides for severe penalties for any willful violation of a statute administered by the FPSC or any of its rules or orders. Secs. 350.127 (1) and 366.095, Florida Statutes. Accordingly, Chesapeake believes it must submit to FPSC jurisdiction over its securities if it is to avoid assessment of such penalties and to otherwise remain in good standing before the FPSC. It therefore files the instant application, under protest, and without waiver of its position regarding the unconstitutionality of the statute.

STATE OF DELAWARE *

*

COUNTY OF KENT * SS

BE IT REMEMBERED that on this 22nd day of September, 1998, personally appeared before me, a Notary Public for the State of Delaware, Michael P. McMasters, who being by me duly sworn, did depose and say that he is Vice President, Treasurer and CFO of Chesapeake Utilities Corporation, a Delaware corporation, and that insofar as the application of Chesapeake Utilities Corporation states facts, and insofar as those facts are within his personal knowledge, they are true; and insofar as those facts that are not within his personal knowledge, he believes them to be true, and that the exhibits accompanying this application and attached hereto are true and correct copies of the originals of the aforesaid exhibits, and that he has executed this application on behalf of the Company and pursuant to the authorization of its Board of Directors.



Michael P. McMasters
Vice President, Treasurer & CFO

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

Notary Public
My Commission Expires: 10/21/01

PRAYER FOR RELIEF

Based on the foregoing, Chesapeake Utilities Corporation requests that the FPSC issue an Order approving the proposed issuances of 5,000,000 shares of common stock, $70,000,000 of secured and/or unsecured debt and to exceed the limitation placed on short-term borrowings by Section 366.04, Florida Statutes, so as to issue up to $40,000,000 in short-term obligations.

Respectfully submitted,

Date: September 23, 1998

Wayne L. Schiefelbein
Ruden, McClosky, Smith, Schuster & Russell, P.A.
215 South Monroe Street
Suite 815
Tallahassee, Florida 32301
(850) 681-9027

Attorneys for
Chesapeake Utilities Corporation

Date: September 22, 1998

By: Michael P. McMasters
Michael P. McMasters
Vice President, Treasurer, & CFO

EXHIBIT A

A(1) Chesapeake Utilities Corporation Annual Report on Form 10-K for the year ended December 31, 1997.

A(2) Chesapeake Utilities Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.

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, 1997 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)	**(Zip Code)**

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

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

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

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

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

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

As of March 20, 1998, 4,543,695 shares of common stock were outstanding. The aggregate market value of the common shares held by non-affiliates of Chesapeake Utilities Corporation, based on the last trade price on March 20, 1997, as reported by the New York Stock Exchange, was approximately $67 million.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENTS	PART OF FORM 10-K
Definitive Proxy Statement dated March 30, 1998	**Part III**

CHESAPEAKE UTILITIES CORPORATION
FORM 10-K

YEAR ENDED DECEMBER 31, 1997

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PART I

Item 1. Business

(a) General Development of Business

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

Chesapeake's three natural gas distribution divisions serve approximately 35,800 residential, commercial and industrial customers in southern Delaware, Maryland's Eastern Shore and Central Florida. The Company's natural gas transmission subsidiary, Eastern Shore Natural Gas Company ("Eastern Shore"), operates a 271-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 Delaware and on the Eastern Shore of Maryland. The Company's propane segment serves approximately 34,000 customers in southern Delaware and on the Eastern Shore of Maryland and Virginia. The advanced information services segment provides software services and products to a wide variety of customers and clients.

(b) Financial Information about Industry Segments

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

(c) Narrative Description of Business

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

(i) (a) Natural Gas Transmission

Eastern Shore, the Company's wholly owned transmission subsidiary, operates an interstate natural gas transportation and provides contract storage services for affiliated and non-affiliated companies through an integrated gas pipeline extending from southeastern Pennsylvania to Delaware and the Eastern Shore of Maryland. During 1997, Eastern Shore implemented open access transportation services. Eastern Shore now provides transportation services, contract storage services as well as purchasing and selling small amounts of gas for system balancing purposes ("swing gas"). Eastern Shore's rates are subject to regulation by the Federal Energy Regulatory Commission ("FERC").

Adequacy of Resources

With the implementation of open access effective November 1, 1997, Eastern Shore released, through the permanent release mechanism of its upstream service providers tariffs, various levels of firm transportation capacity and contract storage service to customers. Eastern Shore retained contracts with Transcontinental Gas Pipe Line Corporation ("Transco") for 4,916 thousand cubic feet ("Mcf") firm transportation capacity, expiring in 2005, and three firm storage services providing peak day entitlements of 7,046 Mcf.

Eastern Shore also retained contracts with Columbia Gas Transportation ("Columbia") for services, including: firm transportation capacity of 869 Mcf per day, which expires in 2018; storage service providing a peak day entitlement of 1,111 Mcf and total capacity of 53,738 Mcf, expiring in 2004; and firm storage service providing peak day entitlements of 563 Mcf and a total capacity of 50,686 Mcf, which expires in 2018. Eastern Shore retained the firm transportation capacity to provide swing transportation service to a limited number of customers that requested this service. Prior to open access, Eastern Shore had firm contracts with three interstate pipelines for transportation and storage services coupled with firm contracts for natural gas supply with five suppliers providing a maximum firm daily capacity of 20,469 Mcf.

Competition

Under this open access environment, interstate pipeline companies have unbundled the traditional components of their service — gas gathering, transportation and storage — from the sale of the commodity. Pipelines that choose to be merchants of gas must form separate marketing operations independent of their pipeline operations. Hence, gas marketers have developed as a viable option for many companies because they are providing expertise in gas purchasing along with collective purchasing capabilities which, when combined, may reduce end-user cost. Additional discussion on competition is included in Item 7 under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Rates and Regulation

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

Regulatory Proceedings

Delaware City Compressor Station Filing. In December 1995, Eastern Shore filed an application before the FERC pursuant to Sections 7(b) and (c) of the Natural Gas Act for a certificate of public convenience and necessity authorizing Eastern Shore to: (1) construct and operate a 2,170 horsepower compressor station in Delaware City, New Castle County, Delaware on a portion of its existing pipeline system known as the "Hockessin Line", such new station to be known as the "Delaware City Compressor Station"; (2) construct and operate slightly less than one mile of 16-inch pipeline in Delaware City, New Castle County, Delaware to tie the suction side of the proposed Delaware City Compressor Station into the Hockessin Line; and (3) increase the maximum allowable operating pressure from 500 psig to 590 psig on 28.7 miles of Eastern Shore's pipeline from Eastern Shore's existing Bridgeville Compressor Station in Bridgeville, Sussex County, Delaware to its terminus in Salisbury, Wicomico County, Maryland.

In September 1996 the FERC issued its Final Order, which: (1) authorized Eastern Shore to construct and operate the facilities requested in its application; (2) authorized Eastern Shore to roll-in the cost of the facilities into its existing rates if the revenues from the increase in services exceed the cost associated with the expansion portion of the project; (3) denied Eastern Shore the authority to increase the level of sales and storage service it provides its customers until it completes its restructuring in its open access proceeding; and (4) authorized Eastern Shore to abandon the 100 Mcf per day of firm sale service, to one of its direct sale customers. The compressor facility and associated piping were needed to stabilize capacity on Eastern Shore's system as a result of steadily declining inlet pressures at the Hockessin interconnect with Transcontinental Gas Pipe Line Corporation. Construction of the facilities started during the second half of 1996 and was completed during the first quarter of 1997.

Rate Case Filing. In October 1996 Eastern Shore filed for a general rate increase with the FERC. The filing proposed an increase in Eastern Shore's jurisdictional rates that would generate additional annual operating revenue of approximately $1.4 million. Eastern Shore also stated in the filing that it intended to use the cost-of-service submitted in the general rate increase filing to develop rates in the pending Open Access Docket. In September 1997, the FERC approved a rate increase of $1.2 million.

Open Access Filing. In December 1995, Eastern Shore filed its abbreviated application for a blanket certificate of public convenience and necessity authorizing the transportation of natural gas on behalf of others. Eastern Shore proposed to unbundle the sales and storage services it had provided. Customers who had previously received firm sales and storage services on Eastern Shore (the "Converting Customers") would receive entitlements to firm transportation service on Eastern Shore's pipeline in a quantity equivalent to their existing service rights. Eastern Shore proposed to retain some of its pipeline entitlements and storage capacity for operational issues and to

facilitate "no-notice" (no prior notification required to receive service) transportation service on its pipeline system. Eastern Shore would release or assign to the remaining Converting Customers the firm transportation capacity, including contract storage, it held on its upstream pipelines so that the Converting Customers would be able to become direct customers of such upstream pipelines. Converting Customers who previously received bundled sales service having no-notice characteristics would have the right to elect no-notice firm transportation service.

In connection with the rate increase settlement, the issues pertaining to Eastern Shore operating as an open access pipeline were also settled in September 1997, with open access implementation occurring on November 1, 1997.

(i) (b) Natural Gas Distribution

Chesapeake distributes natural gas to approximately 35,800 residential, commercial and industrial customers in southern Delaware, the Salisbury and Cambridge, Maryland areas on Maryland's Eastern Shore, and Central Florida. These activities are conducted through three utility divisions, one division in Delaware, another in Maryland and a third division in Florida. In 1993, the Company started natural gas supply management services in the state of Florida under the name of Peninsula Energy Services Company ("PESCO").

Delaware and Maryland. The Delaware and Maryland divisions serve approximately 29,950 customers, of which approximately 26,860 are residential and commercial customers purchasing gas primarily for heating purposes. Annually, residential and commercial customers account for approximately 69% of the volume delivered by the divisions, and 79% of the divisions' revenue. The divisions' industrial customers purchase gas, primarily on an interruptible basis, for a variety of manufacturing, agricultural and other uses. Most of Chesapeake's customer growth in these divisions comes from new residential construction using gas heating equipment.

Florida. The Florida division distributes natural gas to approximately 8,748 residential and commercial and 84 industrial customers in Polk, Osceola and Hillsborough Counties. Currently 42 of the division's industrial customers, which purchase and transport gas on a firm and interruptible basis, account for approximately 90% of the volume delivered by the Florida division and 60% of the division's annual natural gas and transportation revenues. These customers are primarily engaged in the citrus and phosphate industries and electric cogeneration. The Company's Florida division also provides natural gas supply management services to compete in the open access environment. Currently, twenty-one customers receive such services, which generated gross margin of $70,000 in 1997.

Adequacy of Resources

General. Chesapeake's Delaware and Maryland utility divisions ("Delaware", "Maryland" or "the Divisions") have firm and interruptible contracts with four (4) interstate "open access" pipelines. The Divisions are directly interconnected with Eastern Shore and services upstream of Eastern Shore are contracted with Transco, Columbia, and Columbia Gulf Transmission Company ("Gulf").

Delaware. Delaware's contracts with Transco include: (a) firm transportation capacity of 8,663 dekatherms ("Dt") per day, which expires in 2005; (b) firm transportation capacity of 311 Dt per day for December through February, expiring in 2006; and (c) firm storage service, providing a total capacity of 142,830 Dt, which expires in 1998.

Delaware's contracts with Columbia include: (a) firm transportation capacity of 852 Dt per day, which expires in 2004; (b) firm transportation capacity of 1,132 Dt per day, which expires in 2017; (c) firm storage service, providing a peak day entitlement of 6,193 Dt and a total capacity of 298,195 Dt, which expires in 2004; and (d) firm storage service providing a peak day entitlement of 635 Dt and a total capacity of 57,139 Dt, expring in 2017. Delaware's contracts with Columbia for storage related transportation provide quantities that are equivalent to the peak day entitlement for the period of October through March and are equivalent to fifty percent (50%) of the peak

day entitlement for the period of April through September. The terms of the storage related transportation contracts mirror the storage services that they support.

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

Delaware's contracts with Eastern Shore include: (a) firm transportation capacity of 23,494 Dt per day for the period December through February, 22,272 Dt per day for the months of November, March and April, and 13,196 Dt per day for the period May through October, with various expiration dates ranging from 2004 to 2017; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 2,655 Dt and a total capacity of 131,370 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 580 Dt and a total capacity of 29,000 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 911 Dt and a total capacity of 5,708 Dt, which expires in 2006. Delaware's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 1,846 Dt per day on Transco's pipeline system, retained by Eastern Shore, in addition to Delaware's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Delaware currently has contracts for the purchase of firm natural gas suppy with five (5) suppliers. These contracts provide the availability of a maximum firm daily entitlement of 10,958 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under Delaware's transportation contracts. The gas purchase contracts have various expiration dates.

Maryland Maryland's contracts with Transco include: (a) firm transportation capacity of 4,738 Dt per day, which expires in 2005; (b) firm transportation capacity of 155 Dt per day for December through February, expiring in 2006; and (c) firm storage service providing a total capacity of 33,120 Dt, which expires in 1998.

Maryland's contracts with Columbia include: (a) firm transportation capacity of 442 Dt per day, which expires in 2004; (b) firm transportation capacity of 908 Dt per day, which expires in 2017; (c) firm storage service providing a peak day entitlement of 3,142 Dt and a total capacity of 154,756 Dt, which expires in 2004; and (d) firm storage service providing a peak day entitlement of 521 Dt and a total capacity of 46,881 Dt, which expires in 2017. Maryland's contracts with Columbia for storage related transportation provide quantities that are equivalent to the peak day entitlement for the period October through March and are equivalent to fifty percent (50%) of the peak day entitlement for the period April through September. The terms of the storage related transportation contracts mirror the storage services that they support.

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

Maryland's contracts with Eastern Shore include: (a) firm transportation capacity of 13,028 Dt per day for the period December through February, 12,304 Dt per day for the months of November. March and April, and 7,743 Dt per day for the period May through October; (b) firm storage capacity under Eastern Shore's Rate Schedule GSS providing a peak day entitlement of 1,428 Dt and a total capacity of 70,665 Dt, which expires in 2013; (c) firm storage capacity under Eastern Shore's Rate Schedule LSS providing a peak day entitlement of 309 Dt and a total capacity of 15,500 Dt, which expires in 2013; and (d) firm storage capacity under Eastern Shore's Rate Schedule LGA providing a peak day entitlement of 569 Dt and a total capacity of 3,560 Dt, which expires in 2006. Maryland's firm transportation contracts with Eastern Shore also include Eastern Shore's provision of swing transportation service. This service includes: (a) firm transportation capacity of 969 Dt per day on Transco's

pipeline system, retained by Eastern Shore, in addition to Maryland's Transco capacity referenced earlier and (b) an interruptible storage service under Transco's Rate Schedule ESS that supports a swing supply service provided under Transco's Rate Schedule FS.

Maryland currently has contracts for the purchase of firm natural gas supply with five (5) suppliers. These contracts provide the availability of a maximum firm daily entitlement of 6,243 Dt and the supplies are transported by Transco, Columbia, Gulf and Eastern Shore under Maryland's transportation contracts. The gas purchase contracts have various expiration dates. The Divisions use their firm supply sources to meet a significant percentage of their projected demand requirements. In order to meet the difference between firm supply and firm demand, Delaware and Maryland obtain gas supply on the "spot market" from various other suppliers that is transported by the upstream pipelines and delivered to the Divisions' interconnects with Eastern Shore as needed. The Company believes that Delaware and Maryland's available firm and "spot market" supply is ample to meet the anticipated needs of their customers.

Florida. The Florida division receives transportation service from Florida Gas Transmission Company ("FGT"), a major interstate pipeline. Chesapeake has contracts with FGT for: (a) daily firm transportation capacity of 20,523 Dt in May through September, 27,105 Dt in October, and 26,919 Dt in November through April under FGT's firm transportation service (FTS-1) rate schedule; (b) daily firm transportation capacity of 5,100 Dt in May through October, and 8,100 Dt in November through April under FGT's firm transportation service (FTS-2) rate schedule; and (c) daily interruptible transportation capacity of 20,000 Dt under FGT's interruptible transportation services (ITS-1) rate schedule. The firm transportation contract (FTS-1) expires on August 1, 2000 with the Company retaining a unilateral right to extend the term for an additional ten years. After the expiration of the primary or secondary term, Chesapeake has the right to first refuse to match the terms of any competing bids for the capacity. The firm transportation contract (FTS-2) expires on March 1, 2015. The interruptible transportation contract is effective until August 1, 2010 and month to month thereafter unless canceled by either party with thirty days notice.

The Florida division currently receives its gas supply from various suppliers. If needed, some supply is bought on the spot market; however, the majority is bought under the terms of two firm supply contacts with Natural Gas Clearinghouse and LG&E Energy Marketing. Availability of gas supply to the Florida division is also expected to be adequate under existing arrangements.

Competition

Competition with Alternative Fuels. Historically, the Company's natural gas distribution divisions have successfully competed with other forms of energy such as electricity, oil and propane. The principal consideration in the competition between the Company and suppliers of other sources of energy is price and, to a lesser extent, accessibility. All of the Company's divisions have the capability of adjusting their interruptible rates to compete with alternative fuels.

The divisions have several large volume industrial customers that have the capacity to use fuel oil as an alternative to natural gas. When oil prices decline, these interruptible customers convert to oil to satisfy their fuel requirements. Lower levels in interruptible sales occur when oil prices remain depressed relative to the price of natural gas. However, oil prices as well as the prices of other fuels are subject to change at any time for a variety of reasons; therefore, there is always uncertainty in the continuing competition among natural gas and other fuels. In order to address this uncertainty, the Company uses flexible pricing arrangements on both the supply and sales side of its business to maximize sales volumes.

To a lesser extent than price, availability of equipment and operational efficiency are also factors in competition among fuels, primarily in residential and commercial settings. Heating, water heating and other domestic or

commercial equipment is generally designed for a particular energy source, and especially with respect to heating equipment, the cost of conversion is a disincentive for individuals and businesses to change their energy source.

Competition within the Natural Gas Industry. FERC Order 636 enables all natural gas suppliers to compete for customers on an equal footing. Under this open access environment, interstate pipeline companies have unbundled the traditional components of their service -- gas gathering, transportation and storage from the sale of the commodity. If they choose to be a merchant of gas, they must form a separate marketing operation independent of their pipeline operations. Hence, gas marketers have developed as a viable option for many companies because they are providing expertise in gas purchasing along with collective purchasing capabilities which, when combined, may reduce end-user cost.

Also resulting from an open access environment, the distribution division can be in competition with the interstate transmission company if the distribution customer is located close to the transmission company's pipeline. The customers at risk are usually large volume commercial and industrial customers with the financial resources and capability to bypass the distribution division. In certain situations the distribution divisions may adjust rates and serves for these customers to retain their business.

Rates and Regulation

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

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

Regulatory Proceedings

Maryland. In July 1995, Chesapeake's Maryland division filed an application with the Maryland Public Service Commission ("MPSC") requesting a rate increase of $1,426,711 or 17.09%. The two largest components of the increase were attributable to environmental costs and a new customer information system, implemented in 1995.

On November 30, 1995, the MPSC issued an order approving a settlement proposal of a $975,000 increase in annual base rates effective for gas provided on or after December 1, 1995. As required in the settlement of the rate case, the Company filed a cost of service study with the MPSC in June 1996. The purpose of a cost of service study was to allocate revenue among customer or rate classifications. The filing, which included proposals for restructuring sales services that more closely reflect the cost of serving commercial and industrial customers, the unbundling of gas costs from distribution system costs, revisions to sharing of interruptible margins between firm ratepayers and the Company and new services that would allow customers using more than 30,000 Ccf of gas per year to purchase gas from suppliers other than the Company.

After negotiations with MPSC staff and other interested parties, a settlement was reached on most sales service issues and the Commission approved a proposed order in March 1997. The settlement includes: (1) class revenue requirements and restructured sales services which provide for separate firm commercial and industrial rate schedules for general service, medium volume, large volume and high load factor customer groups; (2) unbundling of gas costs from distribution charges; (3) a new gas cost recovery mechanism, which utilizes a projected period under which the fixed cost portion of the gas rate will be forecasted on an annual basis and the commodity cost

portion of the gas rate will be estimated quarterly, based on projected market prices; and (4) interruptible margins will continue to be shared, 90% to customers and 10% to the Company, but distribution costs incurred for incremental load additions can be recovered with carrying charges utilizing 100% of the incremental margin if the payback period is within three years.

At the request of MPSC staff, consideration of the new transportation services were postponed until Eastern Shore's open access filing was settled with the FERC.

Delaware. In April 1995, Chesapeake's Delaware division filed an application with the Delaware Public Service Commission ("DPSC") requesting a rate increase of $2,751,000 or 14% over current rates. The largest component, one-third of the total requested increase, was attributable to projected costs associated with the remediation proposed by the Environmental Protection Agency ("EPA") of the site of a former coal gas manufacturing plant operated in Dover, Delaware. The Company and the DPSC agreed to separate the environmental recovery from the rate increase so each could be addressed individually. In December 1995, the DPSC approved an order authorizing a $900,000 increase to base rates effective January 1,1996.

In December 1995, the DPSC approved a recovery of environmental costs associated with the Dover Gas Light Site by means of a rider (supplement) to base rates. The DPSC approved a rider effective January 1, 1996 to recover over five years all unrecovered environmental costs through September 30, 1995 offset by the deferred tax benefit of these costs. The deferred tax benefit equals the projected cashflow savings realized by the Company in connection with a reduced income tax liability due to the possibility of accelerated deduction allowed on certain environmental costs when incurred. Each year, the rider rate will be calculated based on the amortization of expenses for previous years. The advantage of the environmental rider is that it is not necessary to file a rate case every year to recover expenses.

In December 1995, Chesapeake's Delaware division filed its rate design proposal with the DPSC to initiate Phase II of this proceeding. The principal objective of the filing was to prepare the Company for an increasingly competitive environment anticipated when Eastern Shore becomes an open access pipeline. This initial filing proposed new rate schedules for commercial and industrial sales service, individual pricing for interruptible negotiated contract rates, a modified purchased gas cost recovery mechanism and a natural gas vehicle tariff.

In May 1996, Delaware division filed its proposal relating to transportation and balancing services with the DPSC, which proposed that transportation of customer-owned gas be available to all commercial and industrial customers with annual consumption over 3,000 Mcf per year.

In February 1997, the DPSC approved an order authorizing new service offerings and rate design for services rendered on and after March 1, 1997. The approved changes include: (1) restructured sales services which provide commercial and industrial customers with various service classifications such as general service, medium volume, large volume and high load factor services; (2) a modified purchased gas cost recovery mechanism which takes into consideration the unbundling of gas costs from distribution charges as well as charging certain firm service classifications different gas cost rates based on the service classification's load factor; (3) the implementation of a mechanism for sharing interruptible, capacity release and off-system sales margins between firm sales customers and the Company, with changing margin sharing percentages based on the level of total margin; and (4) a provision for transportation and balancing services for commercial and industrial customers with annual consumption over 30,000 Ccf per year to transport customer-owned gas on the Company's distribution system.

Florida. On November 26, 1997, the Florida Division filed a request with the Florida Public Service Commission (FPSC) in Docket No. 971559-GU, for a Limited Proceeding to Restructure Rates and for Approval of Gas Transportation Agreements. The Florida Division has entered into Gas Transportation Contracts with its two largest

customers which resulted in retaining these two customers on the Company's distribution system at rates lower than previously achieved. As a result of this reduction in revenue, the Company has proposed in its application to restructure rates for its remaining customers to more closely reflect the cost of service for each rate class and to recover the level of revenues previously generated by the two Contract customers.

The Company's restructuring proposal is revenue neutral. Approval of this request would not result in additional revenues to the Company; however, FPSC approval would enable the Company to retain its two largest customers while providing the Company with the opportunity to achieve its FPSC authorized rate of return.

FPSC Staff issued their recommendation in this docket on March 12, 1998. The Commission voted to approve the Company's restructuring proposal on March 24, 1998. A Commission Order in this docket is expected April 14, 1998.

(i) (c) Propane Distribution

Chesapeake's propane distribution group consists of Sharp Energy, Inc. ("Sharp Energy"), a wholly owned subsidiary of Chesapeake, its wholly owned subsidiary, Sharpgas, Inc. ("Sharpgas") and Tri-County Gas Company, Inc. ("Tri-County") a wholly owned subsidiary of Chesapeake.

On March 6, 1997, Chesapeake acquired all of the outstanding shares of Tri-County a family-owned and operated propane distribution business located in Salisbury and Pocomoke, Maryland. The combined operations of the Company and Tri-County served approximately 34,000 propane customers on the Delmarva Peninsula and delivered approximately 27 million retail and wholesale gallons of propane during 1997.

The propane distribution business is affected by many factors such as seasonality, the absence of price regulation and competition among local providers.

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

Adequacy of Resources

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

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

Competition

Sharp Energy and Tri-County compete with several other propane distributors in their service territories, primarily on the basis of service and price, emphasizing reliability of service and responsiveness. Competition is generally local because distributors located in close proximity to customers incur lower costs of providing service.

Propane competes with both fuel oil and electricity as an energy source. Propane competes with fuel oil based on its cleanliness and environmental advantages. Propane is also typically less expensive than both fuel oil and electricity, based on equivalent BTU value. Since natural gas has historically been less expensive than propane, propane is generally not distributed in geographic areas serviced by natural gas pipeline or distribution systems.

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

The Company's propane operations are subject to all operating hazards normally associated with the handling, storage and transportation of combustible liquids, such as the risk of personal injury and property damage caused by fire. The Company carries general liability insurance in the amount of $35,000,000 per occurrence, but there is no assurance that such insurance will be adequate.

(i) (d) Advanced Information Services

Chesapeake's advanced information services segment is comprised of United Systems, Inc. ("USI") and Capital Data Systems, Inc. ("CDS"), both wholly owned subsidiaries of the Company. CDS provided programming support for application software, until the first quarter of 1997, at which time it disposed of substantially all of its assets.

USI is an Atlanta-based company that primarily provides support for users of PROGRESS™, a fourth generation computer language and Relational Database Management System. USI offers consulting, training, software development "tools" and customer software development for its client base, which includes many large domestic and international corporations.

Competition

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

(i) (e) Other Subsidiaries

Skipjack, Inc. ("Skipjack") and Chesapeake Investment Company ("Chesapeake Investment"), are wholly owned subsidiaries of Chesapeake Service Company. Skipjack owns and leases to affiliates, two office buildings in Dover, Delaware. Chesapeake Investment is a Delaware affiliated investment company.

On March 6, 1997, in connection with the acquisition of Tri-County, the Company acquired Eastern Shore Real Estate, Inc. ("ESR"), which became a wholly owned subsidiary of Chesapeake Service Company. ESR owns and leases office buildings to affiliates and external companies.

(ii) Seasonal Nature of Business

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

(iii) Capital Budget

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

(iv) Employees

The Company has 397 employees, including 114 in natural gas distribution, nine in natural gas transmission, 131 in propane distribution and 63 in advanced information services. The remaining 80 employees are considered general and administrative and include officers of the Company and marketing, engineering, treasury, accounting, data processing, planning, human resources and other administrative personnel. The acquisition of Tri-County added 43 employees to the total number of employees of the Company.

Item 2. Properties

(a) General

The Company owns offices and operates facilities in Pocomoke, Salisbury, Cambridge, and Princess Anne, Maryland; Dover, Seaford, Laurel and Georgetown, Delaware; and Winter Haven, Florida, and rents office space in Dover, Delaware; Plant City, Florida; Chincoteague and Belle Haven, Virginia; Easton and Pocomoke, Maryland; Detroit, Michigan; and Atlanta, Georgia. In general, the properties of the Company are adequate for the uses for which they are employed. Capacity and utilization of the Company's facilities can vary significantly due to the seasonal nature of the natural gas and propane distribution businesses.

(b) Natural Gas Distribution

Chesapeake owns over 542 miles of natural gas distribution mains (together with related service lines, meters and regulators) located in its Delaware and Maryland service areas, and 469 miles of such mains (and related equipment) in its Central Florida service areas. Chesapeake also owns facilities in Delaware and Maryland for propane-air injection during periods of peak demand. A portion of the properties constituting Chesapeake's distribution system are encumbered pursuant to Chesapeake's First Mortgage Bonds.

(c) Natural Gas Transmission

Eastern Shore owns approximately 271 miles of transmission lines extending from Parkesburg, Pennsylvania to Salisbury, Maryland. Eastern Shore also owns three compressor stations located in Delaware City, Delaware, Daleville, Pennsylvania and Bridgeville, Delaware. The Delaware City compressor facility and associated piping are needed to stabilize capacity on Eastern Shore's system as a result of steadily declining inlet pressures at the Hockessin interconnect with Transcontinental Gas Pipe Line Corporation. The Daleville station is used to increase Columbia supply pressures to match Transco supply pressures, and to increase Eastern Shore's pressures in order to serve Eastern Shore's firm customers' demands, including those of Chesapeake's Delaware and Maryland divisions. The Bridgeville station is being used to provide increased pressures required to meet demands on the system.

(d) Propane Distribution

Sharpgas and Tri-County own bulk propane storage facilities with an aggregate capacity of 1.9 million gallons at 33 plant facilities in Delaware, Maryland and Virginia, located on real estate they either own or lease.

Item 3. Legal Proceedings

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

Environmental

(a) Dover Gas Light Site

In 1984, the State of Delaware notified the Company that a parcel of land it purchased in 1949 from Dover Gas Light Company, a predecessor gas company, contained hazardous substances. The State also asserted that the Company is responsible for any clean-up and prospective environmental monitoring of the site. The Delaware Department of Natural Resources and Environmental Control ("DNREC") investigated the site and surroundings, finding coal tar residue and some ground-water contamination.

In October 1989, the Environmental Protection Agency Region III ("EPA") listed the Dover Site on the National Priorities List under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund"). At that time under CERCLA, both the State of Delaware and the Company were named as potentially responsible parties ("PRPs") for clean-up of the site.

The EPA issued the site Record of Decision ("ROD") dated August 16, 1994. The remedial action selected by the EPA in the ROD addressed the ground-water contamination with a combination of hydraulic containment and natural attenuation. Remediation selected for the soil at the site was to meet stringent cleanup standards for the first two feet of soil and less stringent standards for the soil below two feet. The ROD estimated the costs of selected remediation of ground-water and soil at $2.7 million and $3.3 million, respectively.

In May 1995, EPA issued an order to the Company under section 106 of CERCLA (the "Order"), which required the Company to fund or implement the ROD. The Order was also issued to General Public Utilities Corporation, Inc. ("GPU"), which both EPA and the Company believe is liable under CERCLA. Other PRPs such as the State of Delaware were not ordered to perform the ROD. EPA may seek judicial enforcement of its Order, as well as significant financial penalties for failure to comply. Although notifying EPA of objections to the Order, the Company agreed to comply. GPU informed EPA that it did not intend to comply with the Order.

In March 1995, the Company commenced litigation against the State of Delaware for contribution to the remedial costs being incurred to carry out the ROD. In December of 1995, this case was dismissed without prejudice based on a settlement agreement between the parties (the "Settlement"). Under the Settlement, the State agreed to support the Company's proposal to reduce the soil remedy for the site, described below, to contribute $600,000 toward the cost of implementing the ROD and to reimburse the EPA for $400,000 in oversight costs. The Settlement is contingent upon a formal settlement agreement between EPA and the State of Delaware. Upon satisfaction of all conditions of the Settlement, the litigation will be dismissed with prejudice.

In June 1996, the Company initiated litigation against GPU for contribution to the remedial costs incurred by Chesapeake in connection with complying with the ROD. At this time, management cannot predict the outcome of the litigation or the amount, if any, of proceeds to be received.

In July 1996, the Company began the design phase of the ROD, on-site pre-design and investigation. A pre-design investigation report ("the report") was filed in October 1996 with the EPA. The report, which required EPA approval, provided up to date status on the site, which the EPA used to determine if the remedial design selected in the ROD was still the appropriate remedy.

In the report, the Company proposed a modification to the soil clean-up remedy selected in the ROD to take into account an existing land use restriction banning future development at the site. In April of 1997, the EPA issued a fact sheet stating that the EPA was considering the proposed modification. The fact sheet included an overall cost estimate of $5.7 million for the proposed modified remedy and a new overall cost estimate of $13.2 million for the remedy selected in the ROD. On August 28, 1997, the EPA issued a Proposed Plan to modify the current clean-up plan that would involve: (1) excavation of off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation

of soil vaporization extraction; (3) pavement of the parking lot; and (4) use of institutional controls that would restrict future development of the Site. The overall estimated clean-up cost of the Site under the proposed plan was $4.2 million, as compared to EPA's estimate of the current clean-up plan at $13.2 million. In January 1998, the EPA issued a revised ROD, which modified the soil remediation to conform to the proposed plan and included the estimated clean-up costs of $4.2 million.

The Company is currently engaged in investigations related to additional parties who may be PRPs. Based upon these investigations, the Company will consider suit against other PRPs. The Company expects continued negotiations with PRPs in an attempt to resolve these matters.

The Company adjusted its accrued liability recorded with respect to the Dover Site to $4.2 million. This amount reflects the EPA's estimate, as stated in the ROD issued in 1998 for remediation of the site according to the ROD. The recorded liability may be adjusted upward or downward as the design phase progresses and the Company obtains construction bids for performance of the work. The Company has also recorded a regulatory asset of $4.2 million, corresponding to the recorded liability. Management believes that in addition to the $600,000 expected to be contributed by the State of Delaware under the Settlement, the Company will be equitably entitled to contribution from other responsible parties for a portion of the expenses to be incurred in connection with the remedies selected in the ROD. Management also believes that the amounts not so contributed will be recoverable in the Company's rates.

As of December 31, 1997, the Company has incurred approximately $5.0 million in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven-year period. In December 1995, the Delaware Public Service Commission, authorized recovery of all unrecovered environmental cost incurred by a means of a rider (supplement) to base rates, applicable to all firm service customers. The costs would be recovered through a five-year amortization offset by the deferred tax benefit associated with those environmental costs. The deferred tax benefit equals the projected cashflow savings realized by the Company in connection with a reduced income tax liability due to the possibility of accelerated deduction allowed on certain environmental costs when incurred. Each year a new rider rate is calculated to become effective December 1. The rider rate is based on the amortization of expenditures through September of the filing years plus amortization of expenses from previous years. The advantage of the rider is that it is not necessary to file a rate case every year to recover expenses incurred. As of December 31, 1997, the unamortized balance and amount of environmental costs not included in the rider, effective January 1, 1998 was $2.1 million and $190,000, respectively. With the rider mechanism established, it is management's opinion that these costs and any future cost, net of the deferred income tax benefit, will be recoverable in rates.

(b) Salisbury Town Gas Light Site

In cooperation with the Maryland Department of the Environment ("MDE"), the Company has completed assessment, construction and has begun remediation of the Salisbury manufactured gas plant site. The assessment determined that there was localized contamination of ground-water. A remedial design report was submitted to MDE in November 1990 and included a proposal to monitor, pump and treat any contaminated ground-water on-site. Through negotiations with the MDE, the remedial action work plan was revised with final approval from MDE obtained in early 1995. The remediation process for ground-water was revised from pump-and-treat to Air Sparging and Soil-Vapor Extraction, resulting in a substantial reduction in overall costs. During 1996, the Company completed construction and began remediation procedures at the Salisbury site and has been reporting the remediation and monitoring results to the Maryland Department of the Environment on an ongoing basis.

The cost of remediation is estimated to range from $140,000 to $190,000 per year for operating expenses. Based on these estimated costs, the Company recorded both a liability and a deferred regulatory asset of $665,000 on December 31, 1997, to cover the Company's projected remediation costs for this site. The liability payout for this site is expected to be over a five-year period. As of December 31, 1997, the Company has incurred approximately $2.4 million for

remedial actions and environmental studies and has charged such costs to accumulated depreciation. In January 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a three to five-year period beginning in 1990. The final insurance proceeds were requested and received in 1992. In December 1995, the Maryland Public Service Commission approved recovery of all environmental cost incurred through September 30, 1995 less amounts previously amortized and insurance proceeds. The amount approved for a 10-year amortization was $964,251. Of the $2.4 million in costs reported above, approximately $597,000 has not been recovered through insurance proceeds or received ratemaking treatment. It is management's opinion that these costs incurred and future costs incurred, if any, will be recoverable in rates.

(c) Winter Haven Coal Gas Site

In May 1996, the Company filed an Air Sparging and Soil Vapor Extraction Pilot Study Work Plan for the Winter Haven site with the Florida Department of Environmental Protection ("FDEP"). The Work Plan described the Company's proposal to undertake an Air Sparging and Soil Vapor Extraction ("AS/SVE") pilot study to evaluate at the site. After discussions with the FDEP, the Company filed a modified AS/SVE Pilot Study Work Plan, scope of work to complete the site assessment activities and a report describing a limited sediment investigation performed recently. The Company will be awaiting FDEP's comments to the modified Work Plan. It is not possible to determine whether remedial action will be required by FDEP and, if so, the cost of such remediation.

The company has spent and received ratemaking treatment of approximately $678,000 on these investigations as of September 30, 1997. The Company has been allowed by the Florida Public Service Commission to continue to accrue for future environmental costs. At September 30, 1997, the Company had $432,000 accrued. It is management's opinion that future costs, if any, will be recoverable in rates.

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

None

Item 10. Executive Officers of the Registrant

Information pertaining to the Executive Officers of the Company is as follows:

Ralph J. Adkins (age 55) Mr. Adkins is Chairman of the Board and Chief Executive Officer of Chesapeake. He has served as Chairman of the Board and Chief Executive Officer since August 1997. Prior to holding his present position, Mr. Adkins served as President and Chief Executive Officer, President and Chief Operating Officer, Executive Vice President, Senior Vice President, Vice President and Treasurer of Chesapeake. Mr. Adkins is also Chairman and Chief Executive Officer of Chesapeake Service Company, and Chairman and Chief Executive Officer of Sharp Energy, Inc., Tri-County Gas Company, Inc., Chesapeake Service Company and Eastern Shore Natural Gas Company, all wholly owned subsidiaries of Chesapeake. He has been a director of Chesapeake since 1989.

John R. Schimkaitis (age 50) Mr. Schimkaitis is President and Chief Operating Officer. He has served as President since August 1997. He previously served as Executive Vice President, Chief Financial Officer, Senior Vice President, Treasurer and Assistant Secretary. From 1983 to 1986, Mr. Schimkaitis was Vice President of Cooper & Rutter, Inc., a consulting firm providing financial services to the utility and cable industries. He was appointed as a director of Chesapeake in February 1996.

Michael P. McMasters (age 39) Mr. McMasters is Vice President, Chief Financial Officer and Treasurer of Chesapeake Utilities Corporation. He has served as Vice President, Chief Financial Officer and Treasurer since December 1996. He previously served as Vice President of Eastern Shore, Director of Accounting and Rates and Controller. From 1992 to May 1994, Mr. McMasters was employed as Director of Operations Planning for Equitable Gas Company.

Stephen C. Thompson (age 37) Mr. Thompson is Vice President of the Natural Gas Operations, as well as Vice President of Chesapeake Utilities Corporation. He has served as Vice President since May 1997. He has served as President, Vice President, Manager, Director of Gas Supply and Marketing and Superintendent of Eastern Shore and Regional Manager for the Florida distribution Operations.

Philip S. Barefoot (age 50) Mr. Barefoot joined Chesapeake as Division Manager of Florida Operations in July 1988. In May 1994 he was elected Vice President of Chesapeake Utilities Corporation. Prior to joining Chesapeake, he was employed by Peoples Natural Gas Company where he held the positions of Division Sales Manager, Division Manager and Vice President of Florence Operations.

Jeremy D. West (age 48) Mr. West joined Chesapeake as President of Sharp Energy in June 1990. In May 1992 he was elected Vice President of Chesapeake's Propane Operations and in May 1997, he was promoted to Vice President of Strategic Planning and Acquisitions. Prior to joining Chesapeake, he was employed by Columbia Propane Corporation, a subsidiary of Columbia Gas System, as Vice President of Marketing, and later, President of Columbia Propane Corporation. He has also serviced as Regional Manager of Suburban Propane.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters
(a) Common Stock Dividends and Price Ranges:

The following table sets forth sale price and dividend information for each calendar quarter during the years December 31, 1997 and 1996:

Quarter Ended	High	Low	Close	Dividends Declared Per Share
1997				
March 31	$18.000	$16.500	$17.375	$0.2425
June 30	17.500	16.000	17.000	0.2425
September 30	18.500	16.250	18.375	0.2425
December 31	21.750	18.375	20.500	0.2425
1996				
March 31	$17.000	$14.500	$16.750	$0.2325
June 30	17.875	15.875	16.000	0.2325
September 30	17.750	15.125	17.500	0.2325
December 31	18.000	16.375	16.875	0.2325

The common stock of the Company trades on the New York Stock Exchange under the symbol "CPK".

(b) Approximate number of holders of common stock as of December 31, 1997:

Title of Class	Number of Shareholders of Record
Common stock, par value $.4867	2,178

(c) Dividends:

During the years ended December 31, 1997 and 1996, cash dividends paid by Chesapeake have been declared each quarter, in the amounts set forth in the table above. During 1996 and 1995, Tri-County paid dividends of $79,000 and $592,000, respectively.

Indentures to the long-term debt of the Company and its subsidiaries contain a restriction that the Company cannot, until the retirement of its Series I Bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188 plus consolidated net income recognized on or after January 1, 1989. As of December 31, 1997, the amounts available for future dividends permitted by the Series I covenant are $14.6 million.

(d) On March 6, 1997, in conjunction with the acquisition of Tri-County Gas Company, Inc., the Company issued 639,000 shares of Company stock to William P. Schneider and James R. Schneider in reliance on the private placement exemption provided by Section 4(2) of the Securities Act of 1933 and Regulation D, thereunder.

Item 6. Selected Financial Data

For the Years Ended December 31,	1997	1996	1995	1994 [(1)]	1993 [(1)]
	(dollars in thousands except stock data)				
Operating					
Operating revenues	$122,775	$130,213	$111,796	$98,572	$85,873
Operating income	$8,559	$10,110	$10,067	$7,227	$6,311
Income before cumulative effect of change in accounting principle	$5,683	$7,605	$7,594	$4,460	$3,914
Cumulative effect of change in accounting principle					$58
Net income	$5,683	$7,605	$7,594	$4,460	$3,972
Balance Sheet					
Gross plant	$143,345	$133,001	$119,837	$110,023	$100,330
Net plant	$99,517	$93,570	$84,589	$75,313	$69,794
Total assets	$137,379	$136,046	$123,339	$108,271	$100,988
Long-term debt, net	$38,226	$28,984	$31,619	$24,329	$25,682
Common stockholders' equity	$50,336	$47,537	$42,582	$37,063	$34,878
Capital expenditures	$11,381	$14,837	$12,887	$10,653	$10,064
Common Stock					
Basic earnings per share:					
Income before cumulative effect of change in accounting principle	$1.27	$1.72	$1.75	$1.23	$1.10
Cumulative effect of change in accounting principle					$0.02
Net income	$1.27	$1.72	$1.75	$1.23	$1.12
Diluted earnings per share:					
Income before cumulative effect of change in accounting principle	$1.24	$1.67	$1.70	$1.20	$1.08
Cumulative effect of change in accounting principle					$0.02
Net income	$1.24	$1.67	$1.70	$1.20	$1.10
Average shares outstanding	4,472,087	4,412,137	4,336,431	3,628,056	3,551,932
Cash dividends per share	$0.97	$0.93	$0.90	$0.88	$0.86
Book value per share	$11.18	$10.71	$9.77	$10.15	$9.76
Common equity/Total capitalization	56.80%	62.10%	57.40%	60.37%	57.59%
Return on equity	11.29%	16.00%	17.80%	12.03%	11.39%
Other					
Number of Employees	397	386	383	320	326
Number of Registered Stockholders	2,178	2,213	2,098	1,721	1,743
Heating Degree Days	4,418	4,717	4,593	4,398	4,705
Heating Degree Days (10-year average)	4,577	4,596	4,586	4,564	4,588

[(1)] 1994 and 1993 have not been restated to include the business combination with Tri-County Gas Company, Inc.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The capital requirements of Chesapeake Utilities Corporation ("Chesapeake" or "the Company") reflect the capital-intensive nature of its business and are attributable principally to the construction program and the retirement of outstanding debt. The Company relies on cash generated from operations and short-term borrowing to meet normal working capital requirements and temporarily finance capital expenditures. During 1997, net cash provided by operating activities, used by investing activities and used by financing activities were $12.3 million, $12.4 million and $1.5 million, respectively.

The Board of Directors has authorized the Company to borrow up to $20.0 million from various banks and trust companies. As of December 31, 1997, Chesapeake had four unsecured bank lines of credit, totaling $34.0 million, for short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of its capital expenditures. The outstanding balances of short-term borrowing at December 31, 1997 and 1996 were $7.6 million and $12.7 million, respectively.

In 1997, Chesapeake used cash provided by operations and the issuance of long-term debt to fund capital expenditures and reduce short-term borrowing. During 1996, the Company used cash provided by operating activities and short-term borrowing to fund the capital expenditures and increases in working capital requirements.

During 1997, 1996 and 1995, capital expenditures were approximately $12.8 million, $14.8 million and $12.9 million, respectively. Chesapeake has budgeted $15.6 million for capital expenditures during 1998. This amount includes $8.7 million and $2.7 million for natural gas and propane distribution, respectively; $3.1 million for natural gas transmission, $395,000 for advanced information services and $632,000 for general plant. The natural gas and propane distribution expenditures are for expansion and improvement of facilities in existing service territories. Natural gas transmission expenditures are for improvement and expansion of the pipeline system. The advanced information services expenditures are for computer hardware, software and related equipment. Financing for the 1998 construction program is expected to be provided from short-term borrowing and cash from operations. The construction program is subject to continuous review and modification. Actual construction expenditures may vary from the above estimates due to a number of factors including inflation, changing economic conditions, regulation, sales growth and the cost and availability of capital.

Chesapeake has budgeted $2.8 million for environmental related expenditures during 1998 and expects to incur additional expenditures in future years (see Note J to the Consolidated Financial Statements), a portion of which may need to be financed through external sources. Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

Capital Structure

As of December 31, 1997, common equity represented 56.8% of permanent capitalization compared to 62.1% in 1996 and 57.4% in 1995. Chesapeake remains committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, helps to ensure that Chesapeake will be able to attract capital from outside sources at a reasonable cost. The achievement of these objectives will provide benefits to customers and creditors, as well as to the Company's investors.

Financing Activities

In December 1997, Chesapeake finalized a private placement of $10 million of 6.85% Senior Notes due January 1, 2012. The Company used the proceeds to repay a portion of its short-term borrowing. In October 1995, the Company finalized a private placement of $10 million of 6.91% Senior Notes due in 2010. The Company used the proceeds to retire $4.1

million of the 10.85% Senior Notes of Eastern Shore Natural Gas Company, the Company's natural gas transmission subsidiary ("Eastern Shore") originally due in 2003. The remaining proceeds were used to reduce short-term borrowing. The Company issued no long-term debt in 1996. During 1997, the Company repaid approximately $3.1 million of long-term debt, compared to $823,000 and $5.4 million in 1996 and 1995, respectively. The increase in debt payments for 1997 resulted from the payoff of $2.2 million of debt assumed in the pooling of interests with Tri-County Gas Company, Inc. ("Tri-County").

On March 6, 1997, the Company acquired all of the outstanding common stock of Tri-County and associated properties. Tri-County distributes propane to both retail and wholesale customers on the peninsula. The transaction was effected through the exchange of 639,000 shares of the Company's common stock and was accounted for as a pooling of interests.

Chesapeake issued 32,169, 33,926 and 38,660 shares of common stock in connection with its Automatic Dividend Reinvestment and Stock Purchase Plan during the years of 1997, 1996 and 1995, respectively.

Results of Operations

Net income for 1997 was $5,682,946 as compared to $7,604,915 for 1996. The decrease in net income is primarily related to temperatures in the Company's northern service territory, which were, on average, 6% warmer than in 1996. The warmer weather resulted in a reduction in volumes sold by the natural gas and propane distribution segments. The lower gas volumes contributed to the reduction in Earnings Before Interest and Taxes ("EBIT") for both distribution segments as shown in the table below.

EARNINGS BEFORE INTEREST AND TAXES (in thousands):

For the Years Ended December 31,	1997	1996	Increase / (decrease)	1996	1995	Increase / (decrease)
EBIT by Business Segment:						
Natural gas distribution	$5,498	$7,167	($1,669)	$7,167	$4,728	$2,439
Natural gas transmission	3,721	2,458	1,263	2,458	6,083	(3,625)
Propane distribution	1,064	2,815	(1,751)	2,815	2,252	563
Advanced information services	1,046	1,056	(10)	1,056	1,061	(5)
Other	558	561	(3)	561	(32)	593
Total EBIT	$11,887	$14,057	($2,170)	$14,057	$14,092	($35)

Chesapeake's 1996 net income was $7,604,915, as compared to $7,593,506 for 1995. Although net income was relatively unchanged, the contribution to net income from each business segment differed during the two-year period. Natural gas distribution EBIT was higher in 1996 due to rate increases placed in effect in two of the three service territories during 1995. EBIT for the propane distribution segment increased due to greater volumes sold due to temperatures being 3% colder than in 1995. Natural gas transmission's contribution decreased due to a reduction in volumes sold to industrial interruptible customers during 1996. In addition, 1995 net income includes a one-time benefit from a settlement with the Federal Energy Regulatory Commission (see Note K to the Consolidated Financial Statements).

Natural Gas Distribution

The reduction in EBIT of $1.7 million from 1996 to 1997 is primarily related to a decline in total gross margin, as indicated in the following table, coupled with an overall increase in expenses. The reduction in gross margin earned on volumes sold is primarily the result of a 3% decline in volumes sold to residential and commercial customers and a decrease in volumes sold to industrial interruptible customers in Chesapeake's Florida service territory. The reduction in volumes sold to residential and commercial customers was directly related to warmer temperatures, primarily during

the first quarter of 1997. Operations and maintenance expenses increased $633,000 and $108,000, respectively. Compensation, regulatory commission expenses and costs related to data processing and billable service revenue contributed to the increase in operations expenses. A greater level of maintenance to the gas pipeline system resulted in an increase in maintenance expenses.

The $2.4 million rise in EBIT from 1995 to 1996 resulted from an increase in gross margin earned on sales of natural gas in two of Chesapeake's three service territories, offset by an overall increase in expenses. The $4.0 million increase in gross margin was partially due to a full year of rate increases, which went into effect in 1995. Maryland operations' rates became effective during December and interim rates were in effect during June of 1995 for Delaware operations. In addition, colder temperatures contributed to the 20% increase in deliveries to residential and commercial customers located in Chesapeake's northern service territory. The $583,000 increase in operations expenses was primarily the result of higher compensation, benefits, data processing costs, bad debts and regulatory expenses. Plant additions placed in service during 1996 resulted in higher depreciation expense. In addition, other taxes increased by $460,000 or 23%, partially due to the inclusion of certain state revenue related taxes, which were previously included as reductions to revenue.

GROSS MARGIN SUMMARY (in thousands)

For the Years Ended December 31,	1997	1996	Increase / (decrease)	1996	1995	Increase / (decrease)
Revenues:						
Gas sold	$54,205	$52,290	$1,915	$52,290	$42,784	$9,506
Gas transported	3,061	2,991	70	2,991	2,618	373
Gas marketed	18,419	19,382	(963)	19,382	8,555	10,827
Other	275	193	82	193	168	25
Total Revenues	$75,960	$74,856	$1,104	$74,856	$54,125	$20,731
Cost of Sales: *						
Gas sold	$35,507	$32,846	$2,661	$32,846	$26,789	$6,057
Gas marketed	18,233	19,117	(884)	19,117	8,410	10,707
Total Cost of Sales	$53,740	$51,963	$1,777	$51,963	$35,199	$16,764
Gross Margin:						
Gas sold	$18,698	$19,444	($746)	$19,444	$15,995	$3,449
Gas transported	3,061	2,991	70	2,991	2,618	373
Gas marketed	186	265	(79)	265	145	120
Other	275	193	82	193	168	25
Total Gross Margin	$22,220	$22,893	($673)	$22,893	$18,926	$3,967

• Transportation service does not have an associated cost of sales.

Natural Gas Transmission

The Company's natural gas transmission segment, Eastern Shore, which became an open access pipeline on November 1, 1997, had an increase in EBIT of $1.3 million for 1997. The rise in EBIT is partially attributable to a rate increase and an increase in firm services implemented in 1997, as well as an overall reduction in expenses. The rate increase is designed to generate additional gross margin of approximately $1.2 million annually. Also contributing to the increase in EBIT were additional revenues generated by the increase in transportation services that were effective with the implementation of open access. On an annual basis, the additional services will generate revenue of approximately $1.3 million. Operations expense decreased by $143,000 or 5%, primarily consisting of compensation, relocation costs and property insurance. Maintenance expenses were also lower due to reduced maintenance required during the year on the gas pipeline system. Capital additions during the year resulted in higher depreciation expense.

The $3.6 million reduction in 1996 EBIT was primarily due to lower gross margin on sales to industrial customers. The gross margin decreased due to a 67% reduction in volumes delivered, primarily reflecting lower deliveries to two industrial interruptible customers — a municipal power plant and a methanol plant. The methanol plant shut down operations on April 1, 1996. During 1996 and 1995, deliveries to the methanol and power plants contributed approximately $284,000 and $2.4 million, respectively to gross margin. As interruptible customers, they had no ongoing commitment, contractual or otherwise, to purchase natural gas from the Company (see Note A to the Consolidated Financial Statements). The $109,000 increase in operating expenses reflects increased compensation and benefit related expenses. Depreciation increased due to plant placed in service.

With Eastern Shore's conversion to open access, all of its customers will have the opportunity to transport gas over its system at rates regulated by the FERC. The variability in Eastern Shore's margins, historically driven by the sales to industrial customers, will dramatically decrease, as capacity reservation fees for transportation services will drive prospective margins. It is expected that in the future, Eastern Shore's EBIT will tend to be more stable and resemble a fully regulated return. Taking the 1997 rate increase, revenues associated with additional capacity and lower margins on services provided to industrial customers into account, the Company expects gross margin during 1998 to be between $7.9 and $8.2 million (see Cautionary Statement). Comparatively, gross margin for the past three years has been $7.9 million, $6.7 million and $10.2 million for 1997, 1996 and 1995, respectively.

Propane Distribution

In 1997, Chesapeake integrated the operations of Tri-County and the Company's existing propane distribution operations. Like Chesapeake's existing propane operations, Tri-County's earnings are heavily dependent upon weather conditions.

The reduction in 1997 EBIT of $1.8 million was primarily due to a reduction in gross margin, partially offset by a reduction in expenses. Gross margin decreased due to an 11% reduction in sales volumes coupled with a 13% lower margin per gallon sold. The decline in sales volumes is directly related to the warmer temperatures, which averaged 6% warmer than the prior year. Furthermore, during the first quarter of 1997 temperatures were 14% warmer than normal. The Company normally sells a high percentage of its annual volume during this period. The reduction in margin per gallon sold was also the result of abnormally warmer temperatures. As temperatures warmed during the first quarter, demand decreased and supply-prices declined rapidly. Due to the low cost of wholesale-supply, retail prices declined, thereby reducing margins. Operations expenses decreased $554,000 or 7% primarily in the areas of compensation, delivery related costs, advertising and legal fees. Maintenance expenses declined primarily in equipment and structures. Depreciation and amortization expenses declined $477,000 or 28% primarily the result of a non-compete agreement, which became fully amortized in November of 1996.

The increase in 1996 EBIT of $563,000 is primarily attributable to a rise in gross margin partially offset by higher expenses. Gross margin was higher due to a 12% increase in volumes sold and a slight increase in margin earned per gallon sold. The increases are directly related to temperatures which were 3% colder than those in 1995. Operating expenses increased $1.3 million or 19% in 1996 primarily due to compensation, delivery related costs, benefits and outside services. Maintenance expenses increased in the areas of propane storage facilities, equipment and structures.

Advanced Information Services

The results of the advanced information services segment consisted primarily of those of United Systems, Inc. ("USI"), due to the downsizing of Chesapeake's North Carolina operations in early 1997. Although the EBIT contribution of this segment has remained unchanged from 1996 to 1997, USI's gross margin has increased by $970,000 or 34%. Operating expenses increased due to the opening of a new office in Detroit, Michigan and the expansion of staff training and marketing efforts to position USI to be able to provide new services and for future growth of current services. Since the rise in operating costs offset most of the growth in gross margin, EBIT remained constant.

Although the EBIT contributed by the advanced information segment was relatively unchanged from 1995 to 1996, EBIT contributed by USI increased $268,000. This was mostly offset by a reduction in EBIT contributed by the North Carolina operation as they ceased to provide facilities management services beginning in early 1996.

Income Taxes

Operating income taxes in 1997 decreased $619,000 due to a reduction in EBIT. This was partially offset by the one-time expense of $318,000 recorded in 1997 to establish the deferred income tax liability for Tri-County. Prior to 1997, Tri-County was a subchapter S Corporation for income tax reporting; therefore, no deferred income taxes were recorded on its balance sheet. In addition, the Company's 1996 and 1995 restated financial statements do not include any income tax expense for Tri-County due to its subchapter S status during those years.

Other

Non-operating income was $428,000, $458,000 and $391,000 for 1997, 1996 and 1995, respectively. The decrease in 1997 is primarily due to a reduction in interest income, partially offset by the gain on the sale of fixed assets. The increase in 1996 is primarily the result of a rise in interest income earned partially offset by a reduction in the gain on sales of fixed assets.

Environmental Matters

The Company continues to work with federal and state environmental agencies to assess the environmental impact and explore corrective action at several former gas manufacturing plant sites (see Note J to the Consolidated Financial Statements). The Company believes that any future costs associated with these sites will be recoverable in rates.

The Year 2000

Chesapeake is dependent upon information systems to operate efficiently and effectively. In order to address the impact of the year 2000 on its many information systems, Chesapeake is in the process of evaluating and remediating any deficiencies. The Company has segregated the evaluation of its readiness and the potential impact of the year 2000 on its systems into two components: primary internal applications and other applications. The Company's primary applications include systems for its financial information; natural gas customer information and billing; and propane customer information, billing and delivery. Other applications include systems for services such as telephone, system control and data acquisition for the pipeline, as well as other vendors' systems. With respect to the three primary applications, Chesapeake has updated its propane customer information, billing and delivery system to a year 2000 compliant version. This system will be tested further to insure compliance during 1998. With respect to the other two primary applications, Chesapeake has conducted initial evaluations and estimates that the cost of any remediation will not be significant. Each application will be tested during 1998. Chesapeake has developed an inventory of other applications and is in the process of developing plans to contact its vendors, test and remediate to the extent necessary.

Competition

Historically, the Company's natural gas operations have successfully competed with other forms of energy such as electricity, oil and propane. The principle considerations have been price, and to a lesser extent, accessibility. As a result of Eastern Shore's recent conversion to open access, the Company expects to be subject to competitive pressures from other sellers of natural gas. With open access transportation services available on Eastern Shore's system, third party suppliers will compete with Chesapeake to sell gas to the local distribution companies and the end users on Eastern Shore's system. Eastern Shore has shifted from providing sales service to providing transportation and contract storage services.

The Company's distribution operations located in Delaware began to offer transportation services to certain industrial customers in December 1997. Chesapeake expects that during 1998, the distribution operations located in Maryland will also begin offering transportation services. The Company expects to expand the availability of transportation services to additional customers in the future. Since the Florida distribution operations have been open to certain industrial

customers since 1994, the Company has gained experience in operating in an open access environment. The Company established a natural gas brokering and supplies operation in Florida to compete for these customers. The Company is evaluating whether to establish similar services in our northern service territory.

Both the propane distribution and the advanced information services businesses face significant competition from a number of larger competitors with substantially greater resources available to them than those of the Company. In addition, in the advanced information services business, changes are occurring rapidly, which could adversely affect the markets for the Company's services.

Inflation

Inflation affects the cost of labor and other goods and services required for operation, maintenance and capital improvements. The impact of inflation has lessened in recent years, except for the effect on purchased gas costs. These costs are passed on to customers through the purchased gas adjustment clause in the Company's tariffs. To help cope with the effects of inflation on its capital investments and returns, the Company seeks rate relief from regulatory commissions for regulated operations while monitoring the returns of its unregulated business operations.

Cautionary Statement

Statements made herein and elsewhere in this Form 10-K, which are not historical fact, are forward-looking statements. In connection with the "Safe Harbor" provisions of the Private Securities Litigation Reform Act of 1995, Chesapeake is providing the following cautionary statement to identify important factors that could cause actual results to differ materially from those anticipated in forward-looking statements made herein or otherwise by or on behalf of the Company.

A number of factors and uncertainties make it difficult to predict the effect on future operating results of Eastern Shore operating as an open access pipeline, relative to historical results. While open access eliminates industrial interruptible sales margins, such sales have varied widely from year to year and, in future years, might have made a less significant contribution to earnings even in the absence of open access. Additionally, there are a number of uncertainties, including future open access proceedings and the effects of competition, which will affect whether the Company will be able to provide economical gas marketing, transportation and other services.

In addition, a number of factors and uncertainties affecting other aspects of the Company's business could have a material impact on earnings. These include: the seasonality and temperature sensitivity of Chesapeake's natural gas and propane businesses, the relative price of alternative energy sources and the effects of competition on both unregulated and natural gas sales, now that the Company operates in an open access environment. There are also uncertainties relative to the impact of the year 2000 on the information systems of the Company, its vendors and other third parties.

Item 8. Financial Statements and Supplemental Data

REPORT OF INDEPENDENT ACCOUNTANTS

To the Stockholders of
Chesapeake Utilities Corporation

We have audited the consolidated financial statements and consolidated financial statement schedules of Chesapeake Utilities Corporation and Subsidiaries listed in Item 14(a) of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements and the financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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. 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Chesapeake Utilities Corporation and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. In addition, in our opinion, the consolidated financial statement schedules referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

We have also previously audited, in accordance with generally accepted standards, the consolidated balance sheets and statements of capitalization as of December 31, 1995, 1994 and 1993, and the related consolidated statements of income, cash flows, stockholders' equity, and income taxes for each of the two years in the period ended December 31, 1994 (none of which are presented herein) and we expressed unqualified opinions on those consolidated financial statements. In our opinion, the information set forth in the Financial Highlights included in the Selected Financial Data for each of the five years in the period ended December 31, 1997, appearing on page 16 is fairly stated in all material respects in relation to the financial statements from which it has been derived.

COOPERS & LYBRAND L.L.P.

Baltimore, Maryland
February 12, 1998

CONSOLIDATED BALANCE SHEETS

Assets

At December 31,	1997	1996
Property, Plant and Equipment		
Natural gas distribution	$74,769,458	$69,853,054
Natural gas transmission	33,856,873	30,655,492
Propane distribution	26,920,403	25,279,217
Advanced information services	841,757	1,003,850
Other plant	6,161,631	5,414,249
Gas plant acquisition adjustment	795,004	795,004
Total property, plant and equipment	143,345,126	133,000,866
Less: Accumulated depreciation and amortization	(43,827,961)	(39,430,738)
Net property, plant and equipment	99,517,165	93,570,128
Investments	2,721,443	2,263,068
Current Assets		
Cash and cash equivalents	555,198	2,213,529
Accounts receivable (less allowance for uncollectibles of $331,775 and $392,412 in 1997 and 1996, respectively)	13,087,999	14,488,944
Materials and supplies, at average cost	1,380,120	1,284,876
Propane inventory, at average cost	2,288,516	2,345,531
Storage gas prepayments	2,926,618	3,731,680
Underrecovered purchased gas costs	1,673,389	2,192,170
Income taxes receivable	849,623	112,942
Prepaid expenses	1,060,911	942,359
Deferred income taxes	247,487	158,010
Total current assets	24,069,861	27,470,041
Deferred Charges and Other Assets		
Environmental regulatory assets	4,865,073	6,650,088
Environmental expenditures, net	2,372,929	1,778,348
Other deferred charges and intangible assets	3,832,389	4,314,235
Total deferred charges and other assets	11,070,391	12,742,671
Total Assets	$137,378,860	$136,045,908

See accompanying notes

Capitalization and Liabilities

At December 31,	1997	1996
Capitalization		
Stockholders' equity		
Common stock	$2,191,792	$2,160,628
Additional paid-in capital	19,819,604	18,745,718
Retained earnings	28,218,763	26,957,048
Less: Unearned compensation related to restricted stock awarded	(190,886)	(364,529)
Unrealized gain on marketable securities, net	296,872	38,598
Total stockholders' equity	50,336,145	47,537,463
Long-term debt, net of current portion	38,226,000	28,984,368
Total capitalization	88,562,145	76,521,831
Current Liabilities		
Current portion of long-term debt	582,500	3,078,489
Short-term borrowings	7,600,000	12,700,000
Accounts payable	12,451,570	14,426,983
Refunds payable to customers	357,041	353,734
Accrued interest	784,533	741,768
Dividends payable	1,092,168	883,621
Other accrued expenses	3,807,484	3,733,233
Total current liabilities	26,675,296	35,917,828
Deferred Credits and Other Liabilities		
Deferred income taxes	11,490,358	9,798,676
Deferred investment tax credits	821,617	876,432
Environmental liability	4,865,073	6,650,088
Accrued pension costs	1,754,715	1,866,661
Other liabilities	3,209,656	4,414,392
Total deferred credits and other liabilities	22,141,419	23,606,249
Commitments and Contingencies		
(Notes J and K)		
Total Capitalization and Liabilities	$137,378,860	$136,045,908

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31,	1997	1996	1995
Operating Revenues	$122,774,593	$130,213,409	$111,795,778
Cost of Sales	77,764,830	82,226,644	65,616,368
Gross Margin	45,009,763	47,986,765	46,179,410
Operating Expenses			
Operations	21,831,194	22,230,425	20,612,585
Maintenance	2,041,043	2,504,894	2,477,454
Depreciation and amortization	5,396,975	5,504,637	5,802,884
Other taxes	3,853,954	3,689,748	3,194,673
Income taxes	3,327,627	3,947,056	4,025,274
Total operating expenses	36,450,793	37,876,760	36,112,870
Operating Income	8,558,970	10,110,005	10,066,540
Other Income			
Interest income	239,543	249,509	191,845
Other income, net	405,156	177,045	239,687
Income taxes	(216,988)	(83,739)	(105,280)
Allowance for equity funds used during construction		115,434	65,198
Total other income	427,711	458,249	391,450
Income Before Interest Charges	8,986,681	10,568,254	10,457,990
Interest Charges			
Interest on long-term debt	2,347,369	2,392,458	2,282,247
Amortization of debt expense	119,401	120,345	109,399
Other	922,110	514,856	566,320
Allowance for borrowed funds used during construction	(85,145)	(64,320)	(93,482)
Total interest charges	3,303,735	2,963,339	2,864,484
Net Income	$5,682,946	$7,604,915	$7,593,506
Earnings Per Share of Common Stock :			
Basic:	$1.27	$1.72	$1.75
Diluted:	$1.24	$1.67	$1.70

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31,	1997	1996	1995
Operating Activities			
Net Income	$5,682,946	$7,604,915	$7,593,506
Adjustments to reconcile net income to net operating cash:			
Depreciation and amortization	6,090,665	6,148,232	6,246,222
Allowance for equity funds used during construction		(115,434)	(65,198)
Investment tax credit adjustments	(54,815)	(54,815)	(54,815)
Deferred income taxes, net	1,437,206	1,794,146	252,727
Employee benefits	(238,826)	471,870	178,803
Employee compensation from lapsing of stock restrictions	173,643	334,745	431,694
Allowance for refund			(1,356,705)
Other, net	(286,147)	83,301	(339,081)
Changes in assets and liabilities:			
Accounts receivable, net	1,400,945	(904,516)	(4,727,364)
Other current assets	648,282	(2,141,048)	1,588,675
Other deferred charges	(625,395)	(977,652)	(946,450)
Accounts payable, net	(1,823,912)	1,422,807	3,619,023
Refunds payable to customers	3,307	(613,206)	400,192
Overrecovered (underrecovered) purchased gas costs	518,781	(2,245,544)	162,399
Other current liabilities	(619,668)	396,326	939,750
Net cash provided by operating activities	12,307,012	11,204,127	13,923,378
Investing Activities			
Property, plant and equipment expenditures, net	(12,380,826)	(14,069,116)	(11,666,442)
Allowance for equity funds used during construction		115,434	65,198
Purchases of investments	(36,167)	(129,406)	(38,836)
Net cash used by investing activities	(12,416,993)	(14,083,088)	(11,640,080)
Financing Activities			
Common stock dividends, net of amounts reinvested of $382,932, $346,308 and $304,106 in 1997, 1996 and 1995, respectively	(3,829,752)	(3,337,755)	(3,324,376)
Issuance of stock -- Dividend Reinvestment Plan optional cash	167,337	208,813	202,835
Issuance of stock -- Retirement Savings Plan	404,297	349,031	
Net (repayments) borrowings under line of credit agreements	(5,100,000)	7,300,000	(3,197,039)
Proceeds from issuance of long-term debt	9,908,223		10,428,753
Repayment of long-term debt	(3,098,455)	(823,213)	(5,439,151)
Net cash (used) provided by financing activities	(1,548,350)	3,696,876	(1,328,978)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,658,331)	817,915	954,320
Cash and Cash Equivalents at Beginning of Year	2,213,529	1,395,614	441,294
Cash and Cash Equivalents at End of Year	$555,198	$2,213,529	$1,395,614
Supplemental Disclosure of Cash Flow Information			
Cash paid for interest	$3,203,709	$2,831,109	$2,884,864
Cash paid for income tax	$3,400,479	$2,122,120	$3,288,895

See accompanying notes

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31,	1997	1996	1995
Common Stock			
Balance -- beginning of year	$2,160,628	$2,122,212	$2,096,515 [1]
Dividend Reinvestment Plan	15,398	16,514	18,816
USI restricted stock award agreements		10,639	6,881
Conversion of debentures	4,461	429	
Company's Retirement Savings Plan	11,305	9,928	
Exercised stock options		906	
Balance -- end of year	2,191,792	2,160,628	2,122,212
Additional Paid-in Capital			
Balance -- beginning of year	18,745,718	17,489,108	16,731,689 [1]
Dividend Reinvestment Plan	529,453	538,607	488,125
USI restricted stock award agreements		344,570	176,029
Sale of treasury stock to Company's Retirement Savings Plan			93,265
Conversion of debentures	151,441	14,557	
Company's Retirement Savings Plan	392,992	328,465	
Exercised stock options		30,411	
Balance -- end of year	19,819,604	18,745,718	17,489,108
Retained Earnings			
Balance -- beginning of year	26,957,048	23,458,776	19,480,374
Net income	5,682,946	7,604,915	7,593,506 [1]
Cash dividends -- Chesapeake [2]	(4,341,964)	(3,514,694)	(3,331,972)
Cash dividends -- Pooled companies	(79,267)	(591,949)	(283,132)
Balance -- end of year	28,218,763	26,957,048	23,458,776
Treasury Stock [3]			
Unearned Compensation			
Balance -- beginning of year	(364,529)	(415,107)	(696,679)
Issuance of award		(284,167)	(121,343)
Amortization of prior years' awards	173,643	334,745	402,915
Balance -- end of year	(190,886)	(364,529)	(415,107)
Unrealized Gain (Loss) on Marketable Securities [4]	296,872	38,598	(72,839)
Total Stockholders' Equity	$50,336,145	$47,537,463	$42,582,150

[1] The following adjustments have been made to 1995 presentation to reflect the Tri-County pooling of interests: Beginning balances of Common Stock and Additional Paid-in Capital have been adjusted by $311,001 and ($103,314), respectively. Net income as shown in the Retained Earnings section has been adjusted by $356,811.

[2] Dividends per share of common stock were $.97, $.93 and $.90 for the years 1997, 1996 and 1995, respectively.

[3] The entire Treasury Stock balance of ($99,842) was sold to the Company's Retirement Savings Plan during 1995, leaving a zero balance.

[4] Net of income tax expense (benefit) of approximately $190,000, $25,000 and ($48,000) for the years 1997, 1996 and 1995, respectively.

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME TAXES

For the Years Ended December 31,	1997	1996	1995
Current Income Tax Expense			
Federal	$1,916,654	$1,884,609	$3,182,346
State	442,563	356,576	621,238
Investment tax credit adjustments, net	(54,815)	(54,815)	(54,815)
Total current income tax expense	2,304,402	2,186,370	3,748,769
Deferred Income Tax Expense			
Property, plant and equipment	1,335,802	581,373	455,151
Deferred gas costs	(204,170)	873,904	(56,915)
Pensions and other employee benefits	(19,508)	107,131	57,508
Unbilled revenue	(104,632)	54,320	(260,922)
Contributions in aid of construction	(33,028)	(6,979)	(283,033)
Environmental expenditures	249,417	108,578	272,068
Allowance for refund		121,671	442,064
Other	16,332	4,427	(244,136)
Total deferred income tax expense [1]	1,240,213	1,844,425	381,785
Total Income Tax Expense	$3,544,615	$4,030,795	$4,130,554
Reconciliation of Effective Income Tax Rates			
Federal income tax expense at 34%	3,171,505	3,956,118	3,986,180
State income taxes, net of Federal benefit	399,213	537,566	546,955
Acquisition of subchapter S Corporation [2]	317,821	(268,211)	(137,800)
Other	(343,924)	(194,678)	(264,781)
Total income tax expense	$3,544,615	$4,030,795	$4,130,554
Effective income tax rate	38.4%	36.8%	36.3%

For the Years Ended December 31,	1997	1996
Deferred Income Taxes		
Deferred income tax liabilities:		
Property, plant and equipment	$12,095,782	$10,716,757
Deferred gas costs	649,681	853,851
Other	1,560,988	1,322,272
Total deferred income tax liabilities	14,306,451	12,892,880
Deferred income tax assets:		
State operating loss carryforwards	57,303	3,320
Deferred investment tax credit	403,789	426,565
Unbilled revenue	968,311	863,679
Pension and other employee benefits	898,060	917,568
Self insurance	585,995	545,836
Other	150,122	495,246
Total deferred income tax assets	3,063,580	3,252,214
Deferred Income Taxes Per Consolidated Balance Sheet	$11,242,871	$9,640,666

[1] Includes $208,000, $392,000 and $108,000 of deferred state income taxes for the years 1997, 1996 and 1995, respectively.

[2] Accounted for as a pooling of interests (see Note B to the Consolidated Financial Statements).

See accompanying notes

A. Summary of Accounting Policies

Nature of Business

Chesapeake Utilities Corporation (the "Company") is engaged in natural gas distribution to approximately 35,800 customers located in southern Delaware, Maryland's Eastern Shore and Central Florida. The Company's natural gas transmission subsidiary operates a pipeline from various points in Pennsylvania to the Company's Delaware and Maryland distribution divisions, as well as other utility and industrial customers in Delaware and the Eastern Shore of Maryland. The Company's propane distribution segment serves approximately 34,000 customers in southern Delaware, the Eastern Shore of Maryland and Virginia. The advanced information services segment provides software services and products to a wide variety of clients.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries, Eastern Shore Natural Gas Company ("Eastern Shore"), Sharp Energy, Inc. ("Sharp Energy"), Tri-County Gas Company, Inc. ("Tri-County") and Chesapeake Service Company. Sharp Energy's accounts include those of its wholly owned subsidiary, Sharpgas, Inc. Chesapeake Service Company's accounts include United Systems, Inc. ("USI"), Capital Data Systems, Inc. and Skipjack, Inc. Investments in entities in which the Company owns more than 20 percent but 50 percent or less, are accounted for by the equity method. All significant intercompany transactions have been eliminated in consolidation.

System of Accounts

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

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. Investments with an original maturity of three months or less are considered cash equivalents.

Property, Plant, Equipment and Depreciation

Utility property is stated at original cost while the assets of the propane subsidiary are valued at cost. The costs of repairs and minor replacements are charged to income as incurred and the costs of major renewals and betterments are capitalized. Upon retirement or disposition of utility property, the recorded cost of removal, net of salvage value, is charged to accumulated depreciation. Upon retirement or disposition of non-utility property, the gain or loss, net of salvage value, is charged to income. The provision for depreciation is computed using the straight-line method at rates, which will amortize the unrecovered cost of depreciable property over the estimated useful life. Depreciation and amortization expense for financial statement purposes is provided at an annual rate for each segment averaging 4.73% for natural gas distribution; 3.04% for natural gas transmission and 5.46% for propane distribution. In addition, the annualized rates average 4.73% for gas plant acquisition adjustments, 17.78% for the advanced information services segment and 2.59% for general plant.

Allowance for Funds Used During Construction

The allowance for funds used during construction ("AFUDC") is an accounting procedure whereby the cost of borrowed funds and other funds used to finance construction projects is capitalized as part of utility plant on the balance sheet, crediting the cost as a non-cash item on the income statement. The costs of borrowed and equity funds are segregated

between interest expense and other income, respectively. AFUDC was capitalized on utility plant construction at the rates of 5.63%, 9.51% and 7.31% for 1997, 1996 and 1995, respectively.

Environmental Regulatory Assets

Environmental regulatory assets represent amounts related to environmental liabilities for which cash expenditures have not been made. As expenditures are incurred, the environmental liability can be reduced along with the environmental regulatory asset. These amounts are recorded to either environmental expenditures or accumulated depreciation as cost of removal. All amounts incurred are amortized in accordance with the ratemaking treatment granted in each jurisdiction.

Other Deferred Charges and Intangible Assets

Other deferred charges include discount, premium and issuance costs associated with long-term debt and rate case expenses. The discount, premium and issuance costs are deferred, then amortized over the original lives of the respective debt issues. Gains and losses on the reacquisition of debt are amortized over the remaining lives of the original issuance(s). Rate case expenses are deferred, then amortized over periods approved by the applicable regulatory authorities. Intangible assets are associated with the acquisition of non-utility companies, and are amortized on a straight-line basis over a period of five to 40 years. The gross intangible assets were $2,516,120 and $1,920,851 at December 31, 1997 and 1996, respectively. Accumulated amortization related to intangible assets was $1,093,905 and $962,227 at December 31, 1997 and 1996, respectively. In addition, the 1997 acquisition of a propane business resulted in the Company acquiring goodwill, a customer list and a non-compete agreement valued at $437,000, $108,000 and $50,000, respectively.

Income Taxes and Investment Tax Credit Adjustments

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

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

The Company had state tax loss carryforwards of $796,000 and $46,000 at December 31, 1997 and 1996, respectively. The Company expects to use all of the loss carryforwards; therefore, no valuation allowance was recorded at December 31, 1997 or 1996. The loss carryforwards expire in 2006 through 2012.

Fair Value of Financial Instruments

Various items within the balance sheet are considered to be financial instruments because they are cash or are to be settled in cash. The carrying values of these items generally approximate their fair value (see Note C to the Consolidated Financial Statements for disclosure of fair value of investments). The fair value of the Company's long-term debt is estimated using a discounted cash flow methodology. The estimated fair value of the Company's long-term debt at December 31, 1997, including current maturities, is approximately $40.7 million as compared to a carrying value of $38.8 million. At December 31, 1996, the estimated fair value was approximately $30.3 million as compared to a carrying value of $29.8 million. These estimates are based on published corporate borrowing rates for debt instruments with similar terms and average maturities.

Operating Revenues

Revenues for the natural gas distribution divisions of the Company are based on rates approved by the various commissions. Customers' base rates may not be changed without formal approval by these commissions. With the

exception of the Company's Florida division, the Company recognizes revenues from meters read on a monthly cycle basis. This practice results in unbilled and unrecorded revenue from the cycle date through month-end. The Florida division recognizes revenues based on services rendered and records an amount for gas delivered but not billed. The propane segment recognizes revenue for certain customers on a metered basis and all other customers on an as-delivered basis.

The natural gas distribution divisions of the Company have purchased gas adjustment ("PGA") clauses that provide for the adjustment of rates charged to customers as gas costs fluctuate. These amounts are collected or refunded through adjustments to rates in subsequent periods.

The natural gas transmission segment became an open access pipeline on November 1, 1997 with revenues based on rates approved by FERC. Before open access, only portions of revenues were based on rates approved by FERC. In addition, the transmission segment had a PGA clause similar to those in the distribution operations. Since the transmission segment records revenue for service only, the PGA clause no longer applies, now that open access is in effect.

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

Earnings Per Share

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128, issued by the Financial Accounting Standards Board ("FASB") in February 1997, requiring dual presentation of basic and diluted per share earnings on the face of the income statement. Basic earnings per share is based on the weighted average number of shares of common stock outstanding. On a diluted basis, both earnings and shares outstanding are adjusted for stock options for each year presented and the assumed conversion of the convertible debentures. The adoption of SFAS No. 128 did not have a material effect on the Company's financial statements. Prior years' presentations of earnings per share have been restated to conform to the guidelines of SFAS No. 128.

CALCULATION OF DILUTED EARNINGS PER SHARE:

For the Years Ended December 31,	1997	1996	1995
Reconciliation of Numerator:			
Net Income — basic	$5,682,946	$7,604,915	$7,593,506
Effect of 8.25% Convertible debentures	204,070	207,825	213,043
Adjusted numerator — diluted	$5,887,016	$7,812,740	$7,806,549
Reconciliation of Denominator:			
Weighted Shares Outstanding — basic	4,472,087	4,412,137	4,336,431
Effect of Dilutive Securities			
8.25% Convertible debentures	238,353	242,742	248,833
Stock options and performance shares *	38,462	22,053	4,487
Adjusted denominator — diluted	4,748,902	4,676,932	4,589,751
Diluted Earnings per Share	$1.24	$1.67	$1.70

* The impact of the 95,492 stock options that were granted in 1997 (see Note H to the Consolidated Financial Statements) could potentially dilute earnings per share in the future.

Certain Risks and Uncertainties

The financial statements are prepared in conformity with generally accepted accounting principles that require management to make estimates (see Note J to the Consolidated Financial Statements for significant estimates) in measuring assets and liabilities and related revenue and expenses. These estimates involve judgements 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 regulated operations, all such deferred amounts would be recognized in the income statement at that time, resulting in a charge to earnings, net of applicable income taxes.

FASB Statements Issued

Comprehensive Income. In June 1997, the FASB issued SFAS No. 130 regarding the reporting of comprehensive income in the full set of financial statements. The Company must adopt the requirements of the standard in its financial statements for the year beginning January 1, 1998. The effect of the adoption of the standard pertains primarily to SFAS No. 115 regarding held for sale investments, and is not expected to have a material impact on the Company's financial statements.

Segment Information. In June 1997, FASB issued SFAS No. 131, establishing standards for public business enterprises to report information about operating segments in annual financial statements and requiring that those enterprises report selected information about operating segments in interim financial reports to shareholders. The Company will adopt the requirements of this standard in the first quarter of the 1998 fiscal year. The adoption of the standard is not expected to have a material impact on the Company's financial statements.

Reclassification of Prior Years' Amounts

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

B. Business Combinations

In March 1997, the Company acquired all of the outstanding common stock of Tri-County Gas Company, Inc. and associated properties. Tri-County's principal business is the distribution of propane to both retail and wholesale customers in southern Delaware, the Eastern Shore of Maryland and Virginia. Six hundred thirty-nine thousand shares of the Company's common stock were exchanged in the transaction, which was accounted for as a pooling of interests. All prior period consolidated financial statements presented have been restated to include the combined results of operations, financial position and cash flows of Tri-County. All material transactions between the Company and Tri-County have been eliminated in consolidation. The results of operations for the separate companies and the combined amounts are presented in the consolidated financial statements to follow.

	Two months ended February 28, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
Operating Revenues			
Chesapeake	$29,690,819	$119,330,068	$104,020,416
Tri-County	2,652,910	10,883,341	7,775,362
Combined	$32,343,729	$130,213,409	$111,795,778
Net Income			
Chesapeake	$2,434,351	$6,910,428	$7,236,695
Tri-County	265,059	694,487	356,811
Combined	$2,699,410	$7,604,915	$7,593,506
Unaudited Pro Forma Net Income *			
Chesapeake	N/A	$6,910,428	$7,236,695
Tri-County	N/A	426,276	219,011
Combined	N/A	$7,336,704	$7,455,706

* Unaudited pro forma net income reflects adjustments to net income to record an estimated provision for income taxes, assuming Tri-County was a tax paying entity in 1996 and 1995. During 1997, Tri-County was a C Corporation for federal income tax purposes. Tri-County will be included in the Company's U.S. federal income tax return, effective March 1997.

C. Investments

The investment balance at December 31, 1997 and 1996 consists primarily of the common stock of Florida Public Utilities Company ("FPU"). The Company's ownership at December 31, 1997 and 1996 represents a 7.34% and 7.41% interest, respectively. The Company has classified its investment in FPU as an "Available for Sale" security, which requires that all unrealized gains and losses be excluded from earnings and be reported net of income tax as a separate component of stockholders' equity. At December 31, 1997 and 1996, the market value exceeded the aggregate cost basis of the Company's portfolio by $486,872 and $63,598, respectively.

D. Lease Obligations

The Company has entered several operating lease arrangements for office space at various locations. Rent expense related to these leases was $277,000, $293,000 and $409,000 for 1997, 1996 and 1995, respectively. Future minimum payments under the Company's current lease agreements are $236,000; $228,000; $232,000; $145,000 and $91,000 for the years of 1998 through 2002, respectively; and $198,000 thereafter.

E. Segment Information

For the Years Ended December 31,	1997	1996	1995
Operating Revenues, Unaffiliated Customers			
Natural gas distribution	$75,940,968	$74,904,100	$54,120,280
Natural gas transmission	12,164,369	15,188,752	24,984,767
Propane distribution	26,994,404	33,179,114	25,345,696
Advanced information services	7,636,407	6,903,246	7,307,413
Other	38,445	38,197	37,622
Total operating revenues, unaffiliated customers	$122,774,593	$130,213,409	$111,795,778
Intersegment Revenues *			
Natural gas distribution	$18,970	$12,232	$5,095
Natural gas transmission	19,282,359	21,543,352	16,663,043
Propane distribution	52,230	2,059	139,052
Advanced information services	149,602	326,913	1,554,498
Other	523,007	332,512	349,508
Total intersegment revenues	$20,026,168	$22,217,068	$18,711,196
Operating Income Before Income Taxes			
Natural gas distribution	$5,498,471	$7,167,237	$4,728,348
Natural gas transmission	3,721,148	2,458,442	6,083,440
Propane distribution	1,063,554	2,814,958	2,252,165
Advanced information services	1,045,912	1,056,201	1,061,309
Other	524,785	406,632	215,146
Total	11,853,870	13,903,470	14,340,408
Add (Less): Eliminations	32,727	153,591	(248,594)
Total operating income before income taxes	$11,886,597	$14,057,061	$14,091,814
Depreciation and Amortization			
Natural gas distribution	$3,076,654	$2,907,831	$2,468,141
Natural gas transmission	892,258	697,834	638,099
Propane distribution	1,204,968	1,681,588	1,629,971
Advanced information services	122,081	131,877	969,587
Other	101,014	85,507	97,086
Total depreciation and amortization	$5,396,975	$5,504,637	$5,802,884
Capital Expenditures			
Natural gas distribution	$5,826,065	$6,472,459	$7,424,489
Natural gas transmission	3,286,860	5,567,509	1,335,793
Propane distribution	2,820,166	2,189,368	2,427,773
Advanced information services	277,015	162,189	114,461
Other	559,043	445,916	1,584,813
Total capital expenditures	$12,769,149	$14,837,441	$12,887,329
Identifiable Assets, at December 31,			
Natural gas distribution	$78,732,860	$77,426,232	$72,256,841
Natural gas transmission	24,781,292	23,981,989	19,292,524
Propane distribution	24,209,693	25,009,751	22,723,647
Advanced information services	1,751,192	1,496,419	1,635,100
Other	7,903,823	8,131,517	7,430,616
Total identifiable assets	$137,378,860	$136,045,908	$123,338,728

* All significant intersegment revenues have been eliminated from consolidated revenues.

F. Long-term Debt

The outstanding long-term debt, net of current maturities, is as follows:

At December 31,	1997	1996
First mortgage sinking fund bonds:		
Adjustable rate Series G*, due January 1, 1998	$ 0	$ 62,500
9.37% Series I, due December 15, 2004	4,300,000	4,820,000
12.00% Mortgage, due February 1, 1998		14,868
8.25% Convertible debentures, due March 1, 2014	3,926,000	4,087,000
Uncollateralized Senior notes:		
7.97% note, due February 1, 2008	10,000,000	10,000,000
6.91% note, due October 1, 2010	10,000,000	10,000,000
6.85% note, due January 1, 2012	10,000,000	
Total long-term debt	$38,226,000	$28,984,368

* The Series G bonds are subject to an interest rate equal to seventy-three percent (73%) of the prime rate (8.50% and 8.25% at December 31, 1997 and 1996, respectively).

Annual maturities of consolidated long-term debt for the next five years are as follows: $582,500 for 1998, $1,520,000 for 1999 and $2,665,091 for the years 2000 through 2002.

On December 15, 1997, the Company issued $10 million of 6.85% senior notes due January 1, 2012. The Company used the proceeds to repay a portion of the Company's short-term borrowing.

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 1997, $156,000 in debentures were converted. The debentures are redeemable at the option of the holder, subject to an annual non-cumulative maximum limitation of $200,000 in the aggregate. As of December 31, 1997, no debentures have been accepted for redemption in 1998. At the Company's option, the debentures may be redeemed at the stated amounts.

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% of total capitalization, the times interest earned ratio must be at least 2.5 and the Company cannot, until the retirement of its Series I bonds, pay any dividends after December 31, 1988 which exceed the sum of $2,135,188 plus consolidated net income recognized on or after January 1, 1989. As of December 31, 1997, the amounts available for future dividends permitted by the Series I covenant approximated $14.6 million.

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

G. Short-term Borrowing

The Board of Directors has authorized the Company to borrow up to $20.0 million from various bank and trust companies. As of December 31, 1997, the Company had four unsecured bank lines of credit totaling $34.0 million, none of which required compensating balances. Under these lines of credit at December 31, 1997 and 1996, the Company had short-term debt outstanding of $7.6 million and $12.7 million, respectively, with a weighted average interest rate of 5.63% and 6.12%, respectively.

H. Common Stock, Additional Paid-in Capital and Treasury Stock

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

For the Years Ended December 31,	1997	1996	1995 [1]
Common Stock: Shares issued and outstanding [2]			
Balance – beginning of year	4,439,516	4,360,589	4,307,791
Dividend Reinvestment Plan [3]	32,169	33,926	38,660
Sale of stock to Company's Retirement Savings Plan	23,228	20,398	
USI restricted stock award agreements		21,859	14,138
Conversion of debentures	9,166	881	
Exercised stock options		1,863	
Balance – end of year	4,504,079	4,439,516	4,360,589

(1) The 1995 beginning balance of 4,307,791 has been restated to include 639,000 shares of Common Stock that were issued to effect the business combination with Tri-County.
(2) 12,000,000 shares are authorized at a par value of $.4867 per share.
(3) Includes dividends and reinvested optional cash payments.

At the beginning of 1995, the Company had 15,609 shares of common stock held in treasury. During 1995, all of these were sold to the Company's retirement savings plan.

Certain key USI employees entered into restricted stock award agreements under which shares of Chesapeake common stock can be issued. Shares were awarded as a non-cash transaction over a five-year period beginning in 1992, and restrictions lapse over a five to ten-year period from the award date, if certain financial targets are met. At December 31, 1997 and 1996, respectively, 12,515 and 24,350 shares valued at $190,886 and $364,529 remain restricted.

The Performance Incentive Plan, which was adopted in 1992, provides for the granting of stock options to certain officers of the Company over a 10-year period. In November 1994, the Company executed Tandem Stock Option and Performance Share Agreements ("Agreements") with certain executive officers. These Agreements provide the participants an option to purchase shares of the Company's common stock, exercisable in cumulative installments of one-third on each anniversary of the commencement of the award period. The Agreements also enable the participants the right to earn performance shares upon the Company's achievement of the performance goals set forth in the Agreements. During the three-year period ended December 31, 1997, the aforementioned performance goals were achieved. Following the approval of the Board of Directors on February 27, 1998, the Company issued 44,081 performance shares. Forty-four thousand ninety-six stock options expired upon the issuance of the performance shares on February 27. In 1997, the Company recorded $415,681 to recognize the compensation expense associated with the performance shares. Changes in outstanding options were as follows:

	1997		1996		1995	
	Number of shares	Option Price	Number of shares	Option price	Number of shares	Option Price
Balance – beginning of year	113,051	$12.625 - $12.75	125,186	$12.625 - $12.75	136,186	$12.625 - $12.75
Options granted	95,492	$20.50				
Options exercised			(12,135)	$12.75		
Options forfeited					(11,000)	$12.625
Balance – end of year	208,543	$12.625 - $20.50	113,051	$12.625 - $12.75	125,186	$12.625 - $12.75
Exercisable	98,083	$12.625 - $12.75	83,114	$12.625 - $12.75	80,280	$12.75

In December 1997, the Company granted stock options to certain executive officers of the Company. As required by SFAS No. 123, 1997 pro forma net income as if fair value based accounting had been used to account for the stock-based compensation costs is $5,679,603. Pro forma basic and diluted earnings per share are $1.27 and $1.24, respectively. Pro forma disclosures for 1997 are not likely to be representative of future effects of reported net income. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 1997: dividend yield of 4.73%; expected volatility of 15.53%; risk-free interest rate of 5.89%; and expected lives of four years.

I. Employee Benefit Plans

Pension Plan

The Company sponsors a defined benefit pension plan covering substantially all of its employees. Benefits under the plan are based on each participant's years of service and highest average compensation. The Company's funding policy provides that payments to the trustee shall be equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

Pension Cost

For the Years Ended December 31,	1997	1996	1995
Service cost	$680,192	$656,985	$474,000
Interest cost	732,188	658,238	562,003
Actual return on assets	(2,427,768)	(1,142,287)	(1,546,325)
Net amortization and deferral	1,421,028	269,135	689,947
Total net pension cost	405,640	442,071	179,625
Amounts capitalized as construction cost	(33,942)	(38,860)	(30,740)
Amount charged to expense	$371,698	$403,211	$148,885

The following schedule sets forth the funding status of the pension plan at December 31, 1997 and 1996.

Accrued Pension Cost

At December 31,	1997	1996
Vested	$7,615,194	$6,834,661
Non-vested	123,255	139,483
Total accumulated benefit obligation	$7,738,449	$6,974,144
Plan assets at fair value	$13,592,699	$10,720,514
Projected benefit obligation	(11,534,355)	(10,265,987)
Plan assets less projected benefit obligation	2,058,344	454,527
Unrecognized net gain	(4,038,679)	(2,820,957)
Unamortized net assets from adoption of SFAS No. 87	(198,326)	(141,579)
Accrued pension cost	($2,178,661)	($2,508,009)
Assumptions:		
Discount rate	7.25%	7.25%
Average increase in future compensation levels	4.75%	4.75%
Expected long-term rate of return on assets	8.50%	8.50%

Other Post-retirement Benefits

The Company sponsors a defined benefit post-retirement health care and life insurance plan that covers substantially all natural gas and corporate employees. The Company had deferred approximately $126,000, which represented the

difference between the Maryland division's SFAS No. 106 expense and its actual pay-as-you-go cost. The amount is being amortized over five years starting in 1995. The unamortized balance is $78,000 at December 31, 1997.

Post-retirement Cost

For the Years Ended December 31,	1997	1996	1995
Service cost	$3,287	$2,820	$1,827
Interest cost on APBO	60,221	54,651	59,706
Amortization of transition obligation over 20 years	29,413	27,859	27,859
Net periodic post-retirement benefit cost	92,921	85,330	89,392
Amount capitalized as construction cost	(16,274)	(16,672)	(14,010)
Amount amortized (deferred)	25,254	25,254	(20,561)
Amount charged to expense	$101,901	$93,912	$54,821

Accrued Post-retirement Liability

At December 31,	1997	1996
Accumulated post-retirement benefit obligation:		
Retirees	$621,203	$567,599
Fully eligible active employees	145,356	137,378
Other active	102,340	86,894
Total accumulated post-retirement benefit obligation	868,899	791,871
Unrecognized transition obligation	(245,154)	(273,013)
Unrecognized net (loss) gain	(147,422)	(67,155)
Accrued post-retirement liability	$476,323	$451,703
Assumption:		
Discount rate	7.25%	7.25%

The health care inflation rate for 1997 is assumed to be 9.5%. This rate is projected to gradually decrease to an ultimate rate of 5% by the year 2007. A one percentage point increase in the health care inflation rate from the assumed rate would increase the accumulated post-retirement benefit obligation by approximately $98,650 as of January 1, 1998, and would increase the aggregate of the service cost and interest cost components of net periodic post-retirement benefit cost for 1998 by approximately $8,293.

Retirement Savings Plan

The Company sponsors a Retirement Savings Plan, a 401(k) plan ("Plan"), that provides participants a mechanism for making contributions for retirement savings. Each participant may make pre-tax contributions based upon eligible compensation. The Company makes a contribution equal to 60% or 100% of each participant's pre-tax contributions, not to exceed 6%, of the participant's eligible compensation for the plan year. The Company's contributions totaled $404,406, $353,350 and $301,794 for the years ended December 31, 1997, 1996 and 1995, respectively. As of December 31, 1997, there are 56,374 shares reserved to fund future contributions to the Plan.

J. Environmental Commitments and Contingencies

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

The Dover site's remediation costs are estimated at $4.2 million in the Record of Decision ("ROD") issued by the Environmental Protection Agency ("EPA") in January 1998. The Company and General Public Utilities Corporation, Inc. ("GPU") were ordered by the EPA to fund or implement the ROD. During 1998, the Company will commence with the design phase. The Company has adjusted the liability associated with the Dover site from $6.0 million to $4.2 million. The Company has also recorded a regulatory asset in the same amount. The previous accrual of $6.0 million was based on the original Record of Decision issued by the EPA in 1994.

The Company initiated litigation against one of the other potentially responsible parties for contribution to the remedial costs incurred by Chesapeake in connection with complying with the ROD. At this time, management cannot predict the outcome of the litigation or the amount of proceeds to be received, if any. Management believes that the Company will be equitably entitled to contribution from other responsible parties for a portion of the expenses to be incurred in connection with the remedies selected in the ROD. Management also believes that the amounts not so contributed will be recoverable in the Company's rates.

In cooperation with the Maryland Department of the Environment ("MDE"), in 1996 the Company completed construction and began remediation procedures at the Salisbury site. In addition, the Company began quarterly reporting of the remediation and monitoring results to the MDE. The Company has established a liability with respect to the Salisbury site of $665,000 as of December 31, 1997. This amount is based on the estimated operating costs of the remediation facilities. A corresponding regulatory asset has been recorded, reflecting the Company's belief that costs incurred will be recoverable in rates.

Portions of the liability payouts for the Dover and Salisbury sites are expected to be over 30 and five-year periods, respectively. In addition, the Company has a site located in the state of Florida, which is currently being evaluated. At this time, no estimate of liability can be made. It is management's opinion that any unrecovered current costs and any other future costs incurred will be recoverable through future rates or sharing arrangements with other responsible parties.

At December 31,	1997	1996
Environmental Costs Incurred		
Delaware	$5,317,380	$4,423,843
Maryland	2,368,168	2,187,810
Florida	692,391	660,828
Total costs incurred	8,377,939	7,272,481
Less: Amounts, net of insurance proceeds, which have been approved for ratemaking treatment	($7,319,496)	(6,396,108)
Amounts pending ratemaking recovery	$1,058,443	$876,373

K. Commitments and Contingencies

FERC PGA

In the third quarter of 1995, Eastern Shore reached a settlement with the FERC pertaining to Eastern Shore's PGA methodology. Accordingly, Eastern Shore reversed a large portion of the estimated liability that had been accrued. This reversal contributed $1,385,000 to pre-tax earnings, or $833,000 to after-tax earnings, for the period.

Other Commitments and Contingencies

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

L. Quarterly Financial Data (Unaudited)

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

For the Quarters Ended:	March 31	June 30	September 30	December 31
1997				
Operating Revenue	$43,645,111	$24,805,428	$19,910,307	$34,413,746
Operating Income	$4,104,438	$1,409,752	$25,177	$3,019,603
Net Income	$3,366,113	$692,841	($739,193)	$2,363,185
Earnings per share:				
Basic	$0.76	$0.16	($0.17)	$0.53
Diluted	$0.72	$0.15	($0.17)	$0.51
1996				
Operating Revenue	$49,026,542	$25,213,979	$19,637,074	$36,335,814
Operating Income	$6,667,499	$1,084,392	($160,422)	$2,518,536
Net Income	$6,000,157	$486,311	($747,779)	$1,866,226
Earnings per share:				
Basic	$1.37	$0.11	($0.17)	$0.42
Diluted	$1.30	$0.11	($0.17)	$0.41

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers of the Registrant

Information pertaining to the Directors of the Company is incorporated herein by reference to the Proxy Statement, under "Information Regarding the Board of Directors and Nominees", dated and to be filed on or before March 30, 1998 in connection with the Company's Annual Meeting to be held on May 19, 1998.

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 Item 10 of Part I of this Form 10-K under "Executive Officers of the Registrant."

Item 11. Executive Compensation

This information is incorporated herein by reference to the Proxy Statement, under "Report on Executive Compensation", dated and to be filed on or before March 30, 1998 in connection with the Company's Annual Meeting to be held on May 19, 1998.

Item 12. Security Ownership of Certain Beneficial Owners and Management

This information is incorporated herein by reference to the Proxy Statement, under "Beneficial Ownership of the Company's Securities", dated and to be filed on or before March 30, 1998 in connection with the Company's Annual Meeting to be held on May 19, 1998.

Item 13. Certain Relationships and Related Transactions

This information is incorporated herein by reference to the Proxy Statement, under "Beneficial Ownership of the Company's Securities", dated and to be filed on or before March 30, 1998 in connection with the Company's Annual Meeting to be held on May 19, 1998.

PART IV

Item 14. Financial Statements, Financial Statement Schedules, and Exhibits and Reports on Form 8-K

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

1. Financial Statements:
   - Accountants' Report dated February 12, 1998 of Coopers & Lybrand L.L.P., Independent Accountants
   - Consolidated Statements of Income for each of the three years ended December 31, 1997, 1996 and 1995
   - Consolidated Balance Sheets at December 31, 1997 and December 31, 1996
   - Consolidated Statements of Cash Flows for each of the three years ended December 31, 1997, 1996 and 1995
   - Consolidated Statements of Common Stockholders' Equity for each of the three years ended December 31, 1997, 1996 and 1995
   - Consolidated Statements of Income Taxes for each of the three years ended December 31, 1997, 1996 and 1995
   - Notes to Consolidated Financial Statements
2. The following additional information for the years 1997, 1996 and 1995 is submitted herewith:
   - Schedule II - Valuation and Qualifying Accounts

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

(b) Reports on Form 8-K

None.

(c) Exhibits

Exhibit 2(a) Agreement and Plan of Merger by and between Chesapeake Utilities Corporation and Tri-County Gas Company, Inc., filed on the Company's Form 8-K, File No. 001-11590 on January 13, 1997, is incorporated herein by reference.

Exhibit 3(a) Amended Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1995, File No. 001-11590.

Exhibit 3(b) Amended Bylaws of Chesapeake Utilities Corporation, effective July 11, 1997, are incorporated herein by reference to Exhibit 3 of the Quarterly Report on Form 10-Q for the period ended June 30, 1997, File No. 001-11590.

Exhibit 4(a) Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.

Exhibit 4(b)	Note Agreement dated February 9, 1993, by and between the Company and Massachusetts Mutual Life Insurance Company and MML Pension Insurance Company, with respect to $10 million of 7.97% Unsecured Senior Notes due February 1, 2008, is incorporated herein by reference to Exhibit 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1992, File No. 0-593.
Exhibit 4(c)	Directors Stock Compensation Plan adopted by Chesapeake Utilities Corporation in 1995 is incorporated herein by reference to the Company's Proxy Statement dated April 17, 1995 in connection with the Company's Annual Meeting held in May 1995.
Exhibit 4(d)	Note Purchase Agreement entered into by the Company on October 2, 1995, pursuant to which the Company privately placed $10 million of its 6.91% Senior Notes due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
Exhibit 4(e)	Note Purchase Agreement entered into by the Company on December 15, 1997, pursuant to which the Company privately placed $10.million of its 6.85 senior notes due 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the Commission upon request.
Exhibit 10(a)	Service Agreement dated November 1, 1989, by and between Transcontinental Gas Pipe Line Corporation and Eastern Shore Natural Gas Company, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989, File No. 0-593.
Exhibit 10(b)	Service Agreement dated November 1, 1989, by and between Columbia Gas Transmission Corporation and Eastern Shore Natural Gas Company, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989, File No. 0-593.
Exhibit 10(c)	Service Agreement for General Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(d)	Service Agreement for Preferred Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(e)	Service Agreement for Firm Transportation Service dated November 1, 1989, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(f)	Form of Service Agreement for Interruptible Sales Services dated May 11, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.

Exhibit 10(g)	Interruptible Transportation Service Agreement dated February 23, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(h)	Interruptible Transportation Service Agreement dated November 30, 1990, by and between Florida Gas Transmission Company and Chesapeake Utilities Corporation, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1990, File No. 0-593.
Exhibit 10(i)	Executive Employment Agreement dated March 26, 1997, by and between Chesapeake Utilities Corporation and each Ralph J. Adkins and John R. Schimkaitis is incorporated herein by reference to Exhibit 10 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997, File No. 001-11590.
Exhibit 10(j)	Form of Performance Share Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Ralph J. Adkins and John R. Schimkaitis is filed herewith.
Exhibit 10(k)	Chesapeake Utilities Corporation Cash Bonus Incentive Plan dated January 1, 1992, is incorporated herein by reference to Exhibit 10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1991, File No. 0-593.
Exhibit 10(l)	Chesapeake Utilities Corporation Performance Incentive Plan dated January 1, 1992, is incorporated herein by reference to the Company's Proxy Statement dated April 20, 1992, in connection with the Company's Annual Meeting held on May 19, 1992.
Exhibit 10(m)	Form of Stock Option Agreement dated January 1, 1998, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of Michael P. McMasters, Stephen C. Thompson, William C. Boyles, Philip S. Barefoot, Jeremy D. West, William P. Schneider and James R. Schneider, is filed herewith.
Exhibit 12	Computation of Ratio of Earning to Fixed Charges, filed herewith.
Exhibit 21	Subsidiaries of the Registrant, filed herewith.
Exhibit 23	Consent of Independent Accountants, filed herewith.

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/ RALPH J. ADKINS
Ralph J. Adkins
Chairman of the Board and Chief Executive Officer
Date: March 20, 1998

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,
Chief Executive Officer and Director
Date: March 20, 1998

/S/ JOHN R. SCHIMKAITIS
John R. Schimkaitis, President,
Chief Operating Officer and Director
Date: March 20, 1998

/S/ MICHAEL P. MCMASTERS
Michael P. McMasters, Vice President,
Chief Financial Officer and Treasurer
(Principal Financial Officer)
Date: March 20, 1998

/S/ RICHARD BERNSTEIN
Richard Bernstein, Director
Date: March 20,1998

/S/ WALTER J. COLEMAN
Walter J. Coleman, Director
Date: March 20, 1998

/S/ JOHN W. JARDINE, JR.
John W. Jardine, Jr., Director
Date: March 20, 1998

/S/ RUDOLPH M. PEINS, JR.
Rudolph M. Peins, Jr., Director
Date: March 20, 1998

/S/ ROBERT F. RIDER
Robert F. Rider, Director
Date: March 20, 1998

/S/ JEREMIAH P. SHEA
Jeremiah P. Shea, Director
Date: March 20, 1998

/S/ WILLIAM G. WARDEN, III
William G. Warden, III, Director
Date: March 20, 1998

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

COLUMN A	COLUMN B	COLUMN C			COLUMN D		COLUMN E
		---- Additions ----					
Description	Balance at Beginning of Period	Charged to Costs and Expense	Charged to Other Accounts		Deductions		Balance at End of Period
Valuation accounts deducted from assets to which they apply for doubtful accounts receivable:							
1997	$392,412	$203,624	$68,038	(B)	($332,299)	(A)	$331,775
1996	$309,955	$364,622	$55,631	(B)	($337,796)	(A)	$392,412
1995	$202,152	$328,012	$43,151	(B)	($263,360)	(A)	$309,955

Notes:

(A) Uncollectible accounts charged off.

(B) Recoveries.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
EXHIBIT 12
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	For the Years Ended December 31,		
	1997	1996	1995
Income from continuing operations	$5,682,946	$7,604,915	$7,593,506
Add:			
Income taxes	3,599,430	4,085,610	3,865,179
Portion of rents representative of interest factor	140,491	129,223	182,211
Interest on indebtedness	3,269,479	2,907,314	2,848,567
Amortization of debt discount and expense	119,401	120,345	109,399
Earnings as adjusted	$12,811,747	$14,847,407	$14,598,862
Fixed Charges			
Portion of rents representative of interest factor	$140,491	$129,223	$182,211
Interest on indebtedness	3,269,479	2,907,314	2,848,567
Amortization of debt discount and expense	119,401	120,345	109,399
Fixed Charges	$3,529,371	$3,156,882	$3,140,177
Ratio of Earnings to Fixed Charges	3.63	4.70	4.65

CHESAPEAKE UTILITIES CORPORATION
EXHIBIT 21
SUBSIDIARIES OF THE REGISTRANT

Subsidiaries	State Incorporated
Eastern Shore Natural Gas Company	Delaware
Sharp Energy, Inc.	Delaware
Chesapeake Services Company	Delaware
United Systems, Inc.	Georgia
Tri-County Gas Company, Inc.	Maryland
Eastern Shore Real Estate	Maryland

Subsidiary of Eastern Shore Natural Gas Company	State Incorporated
Dover Exploration Company	Delaware

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

Subsidiaries of Chesapeake Service Company	State Incorporated
Skipjack, Inc.	Delaware
Capital Data Systems, Inc.	North Carolina
Currin and Associates, Inc.	North Carolina
Chesapeake Investment Company	Delaware

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Prospectuses of Chesapeake Utilities Corporation on Form S-2 (File No. 33-26582), Form S-3 (File Nos. 33-28391 and 33-64671) and Form S-8 (File No. 33-301175) of our report dated February 12, 1998 on our audits of the consolidated financial statements and the consolidated financial statement schedules of Chesapeake Utilities Corporation as of December 31, 1997 and 1996 and for each of the three years in the period ended December 31, 1997 included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Baltimore, Maryland
March 23, 1998

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1998

OR

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

For the transition period from ______ to ______

Commission file number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(302) 734-6799

(Registrant's Telephone Number, Including Area Code)

____

(Former name, former address and former fiscal year, if changed since last report.)

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

Common Stock, par value $.4867 - 5,059,373 shares issued as of June 30, 1998.

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Capitalization and Liabilities	June 30, 1998 (Unaudited)	December 31, 1997 (Restated)
Capitalization		
Stockholders' equity		
Common Stock, par value $.4867 per share; (authorized 12,000,000 shares; issued 5,059,373 and 5,004,078 shares, respectively)	$ 2,462,270	$ 2,435,142
Additional paid-in capital	23,601,702	22,581,463
Retained earnings	31,709,187	28,554,001
Accumulated other comprehensive income	679,956	296,872
Less:		
Unearned compensation - restricted stock awards	(130,964)	(190,886)
Total stockholders' equity	58,322,151	53,676,592
Long-term debt, net of current portion	37,892,000	38,694,741
Total capitalization	96,214,151	92,371,333
Current Liabilities		
Current portion of long-term debt	520,000	582,500
Short-term borrowing	2,100,000	7,600,010
Accounts payable	9,301,448	16,164,032
Refunds payable to customers	256,708	357,041
Income taxes payable	2,378,705	-
Accrued interest	1,173,290	784,533
Dividends payable	-	1,092,168
Overrecovered purchased gas costs	188,337	-
Other accrued expenses	3,362,835	3,829,497
Total current liabilities	19,281,323	30,409,781
Deferred Credits and Other Liabilities		
Deferred income taxes	11,337,417	11,490,358
Deferred investment tax credits	799,091	821,617
Environmental liability	4,773,638	4,865,073
Accrued pension costs	1,972,792	1,754,715
Other liabilities	3,235,816	3,209,657
Total deferred credits and other liabilities	22,118,754	22,141,420
Total Capitalization and Liabilities	$ 137,614,228	$ 144,922,534

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

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(Unaudited)

For the Six Months Ended June 30,	1998	Restated 1997
Operating Revenues	$ 103,764,046	$ 121,221,105
Cost of Sales	77,175,201	95,258,547
Gross Margin	26,588,845	25,962,558
Operating Expenses		
Operations	12,173,257	11,776,176
Maintenance	1,011,651	1,101,418
Depreciation and amortization	3,034,375	2,726,218
Other taxes	2,133,944	2,129,775
Income taxes	2,503,381	2,662,434
Total operating expenses	20,856,608	20,396,021
Operating Income	5,732,237	5,566,537
Other Income, net	200,417	199,594
Income Before Interest Charges	5,932,654	5,766,131
Interest Charges	1,641,544	1,600,068
Net Income	$ 4,291,110	$ 4,166,063
Earnings Per Share of Common Stock:		
Basic:	$ 0.85	$ 0.84
Diluted:	$ 0.83	$ 0.82

COMPREHENSIVE INCOME STATEMENTS
(Unaudited)

For the Six Months Ended June 30,	1998	Restated 1997
Net Income	$ 4,291,110	$ 4,166,063
Components of comprehensive income, net of income taxes		
Unrealized Gain / (Loss) on Marketable Securities	383,084	(7,654)
Comprehensive Income	$ 4,674,194	$ 4,158,409

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

CHESAPEAKE UTILITIES CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. Quarterly Financial Data

The financial information included herein is unaudited; however, the financial information reflects normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the Company's interim results. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis. Certain amounts in 1997 have been reclassified to conform with the 1998 presentation.

2. Acquisitions

On March 31, 1998, Chesapeake acquired Sam Shannahan Well Company, Inc., operating as Tolan Water Service in exchange for 25,000 shares of the Company's common stock. Tolan provides water treatment services to 3,000 residential, commercial and industrial customers on the Delmarva Peninsula.

On May 29, 1998, the Company acquired all of the outstanding shares of Xeron, Inc. ("Xeron"), a privately held company headquartered in Houston, Texas, engaged in the wholesale marketing of natural gas liquids, primarily propane, to both major and large independent oil and petrochemical companies, wholesale gas resellers and southeastern propane companies. The transaction was effected through the exchange of 475,000 shares of the Company's common stock and was accounted for as a pooling of interests. Xeron will continue to operate as a subsidiary of Chesapeake. Due to the acquisition, the Company is in the process of establishing a policy to account for derivatives.

The results of operations for the separate companies and the combined amounts are presented in the following table.

	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Operating Revenues				
Chesapeake	$ 21,170,929	$ 24,805,428	$ 60,428,921	$ 68,450,539
Xeron	21,872,431	19,725,971	42,466,757	52,065,912
Tolan	551,584	387,421	868,368	704,654
Combined	$ 43,594,944	$ 44,918,820	$ 103,764,046	$ 121,221,105
Net Income				
Chesapeake	$ 126,340	$ 692,841	$ 4,080,178	$ 4,058,953
Xeron	95,566	(15,150)	170,641	42,506
Tolan	41,845	47,964	40,291	64,604
Combined	$ 263,751	$ 725,655	$ 4,291,110	$ 4,166,063

EPA may seek judicial enforcement of its Order, as well as significant financial penalties for failure to comply. Additional information pertaining to remediation costs, investigations related to additional parties who may be PRPs and/or litigation initiated by the Company can be found in the Company's annual report on Form 10-K for the year ended December 31, 1997 (see the "Environmental — Dover Gas Light Site" section, beginning on page 11).

In conjunction with the commencement of the design phase of the ROD, a pre-design investigation report ("the report") was filed in October 1996 with the EPA. The report, which required EPA approval, provided an up to date status on the site, which the EPA used to determine if the remedial design selected in the ROD was still the appropriate remedy.

In the report, the Company proposed a modification to the soil cleanup remedy selected in the ROD to take into account an existing land use restriction banning future development at the site. In April of 1997, the EPA issued a fact sheet stating that the EPA was considering the proposed modification. The fact sheet included an overall cost estimate of $5.7 million for the proposed modified remedy and a new overall cost estimate of $13.2 million for the remedy selected in the ROD. On August 28, 1997, the EPA issued a Proposed Plan to modify the current clean-up plan that would involve: (1) excavation of off-site thermal treatment of the contents of the former subsurface gas holders; (2) implementation of soil vaporization extraction; (3) pavement of the parking lot; and (4) use of institutional controls that would restrict future development of the Site. The overall estimated clean-up cost of the Site under the proposed plan was $4.2 million, as compared to EPA's estimate of the previous clean-up plan at $13.2 million. In January 1998, the EPA issued a revised ROD, which modified the soil remediation to conform to the proposed plan and included the estimated clean-up costs of $4.2 million.

Chesapeake is complying with the ROD as amended in the Proposed Plan, as listed above, and is currently seeking EPA approval for the ground-water remediation design. Soil vaporization extraction is now in the design phase and soil remediation pertaining to the former subsurface gas holders is scheduled to begin in the third quarter.

The Company adjusted its accrued liability recorded with respect to the Dover Site to $4.2 million at December 31, 1997. This amount reflects the EPA's estimate, as stated in the ROD issued in January 1998, for remediation of the site according to the ROD. The recorded liability may be adjusted upward or downward as the design phase progresses and the Company obtains construction bids for performance of the work. The Company has also recorded a regulatory asset of $4.2 million, corresponding to the recorded liability. Management believes that in addition to the $600,000 expected to be contributed by the State of Delaware pursuant to a settlement agreement between the parties, the Company will be equitably entitled to contribution from other responsible parties for a portion of the expenses to be incurred in connection with the remedies selected in the ROD. Management also believes that the amounts not so contributed will be recoverable in the Company's rates.

As of June 30, 1998, the Company has incurred approximately $5.5 million in costs relating to environmental testing and remedial action studies. In 1990, the Company entered into settlement agreements with a number of insurance companies resulting in proceeds to fund actual environmental costs incurred over a five to seven-year period beginning in 1990. The final insurance proceeds were requested and received in 1992. In December 1995, the Delaware Public Service Commission authorized a process to review and provide recovery of all current and future unrecovered environmental costs incurred by a means of a rider (supplement) to base rates, applicable to all firm service customers. As of June 30, 1998, $630,000 of environmental costs are not included in the rider, effective December 1, 1997. With the rider mechanism established, it is management's opinion that these costs and any future costs, net of the deferred income tax benefit, will be recoverable in rates. For additional information

financial statements for the period ending December 31, 1998. The impact of SFAS No. 131 will only effect disclosure, as results are disaggregated. There will be no financial impact from the adoption.

(c) Pensions and Other Post-retirement Benefits — The FASB has issued SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefits*, for periods beginning after December 15, 1997. Interim reporting is not required prior to its adoption. This statement standardizes the disclosure requirements for pensions and other post-retirement benefits, requires additional information on changes in the benefit obligations and fair values of plan assets and eliminates certain disclosures that are no longer useful. The Company will begin making the disclosures required by SFAS No. 132 with financial statements for the period ending December 31, 1998. The impact of SFAS No. 132 will only effect disclosure. There will be no financial impact from the adoption.

(d) Derivatives — SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Management is currently assessing any financial impact the adoption may have.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS FOR THE QUARTER ENDED JUNE 30, 1998

The Company recognized net income of $263,751 for the second quarter of 1998, representing a decrease in net income of $461,904 as compared to the corresponding period in 1997. As indicated in the following table, the decrease in income is primarily due to lower contributions to Earnings Before Interest and Taxes ("EBIT") from the natural gas distribution and propane segments. These were partially offset by increased EBIT contributions from the remaining segments.

For the Three Months Ended June 30,	1998	1997	Change
Earnings Before Interest & Taxes			
Natural Gas Distribution	$ 498,140	$ 998,202	$ (500,062)
Natural Gas Transmission	813,222	696,878	116,344
Propane Distribution & Marketing	(781,021)	(332,700)	(448,321)
Advanced Information Services	337,016	310,217	26,799
Other & Eliminations	197,252	153,983	43,269
EBIT	1,064,609	1,826,580	(761,971)
Operating Income Taxes	102,507	415,558	(313,051)
Interest	787,538	790,278	(2,740)
Non-Operating Income, net	89,187	104,911	(15,724)
Net Income	$ 263,751	$ 725,655	$ (461,904)

Natural Gas Distribution

The natural gas distribution segment reported EBIT of $498,140 for the second quarter of 1998 as compared to $998,202 for the corresponding period last year — a decrease of $500,062. The decrease in EBIT is due to lower margins combined with higher operating expenses.

For the Three Months Ended June 30,	1998	1997	Change
Revenue	$ 14,015,180	$ 15,810,312	$ (1,795,132)
Cost of Gas	9,106,036	10,669,854	(1,563,818)
Gross Margin	4,909,144	5,140,458	(231,314)
Operations & Maintenance	2,950,064	2,735,615	214,449
Depreciation & Amortization	849,383	789,003	60,380
Other Taxes	611,557	617,638	(6,081)
EBIT	$ 498,140	$ 998,202	$ (500,062)

Gross margin is down due to decreased deliveries to both interruptible and firm customers. Interruptible volumes were primarily effected by lower sales to our Florida division's interruptible industrial customers primarily engaged in the phosphate industry. Firm customer growth from 1997 to 1998 helped to offset the impact of the unseasonably warmer weather on volumes. Temperatures during the second quarter of 1998 were 28% warmer than the same period last year and 18% warmer than the 10-year average. Increased operating expenses are partially related to an aggressive marketing campaign designed to build awareness of the Company's services and continue building customer growth. In addition compensation and customer installation expenses increased. These are partially offset by decreased legal fees, data processing costs,

The decrease in gross margin is due primarily to a 16% reduction in distribution margins combined with a 29% reduction in margins for the wholesale marketing operation. Although the distribution margin per gallon sold is up, 22% lower volumes more than offset this increase. The decreased volume is the result of the unseasonably warm weather, partially offset by customer growth. Wholesale margins are down due to a reduction in the margin earned per gallon, somewhat offset by an increase in the number of gallons marketed. Although operations and maintenance expenses remain basically unchanged, increased expenses related to the Company's marketing initiatives are being offset by lower incentive compensation related to lower earnings for the wholesale marketing operation. Depreciation and amortization increased due to plant additions placed in service during the past year.

Advanced Information Services

The advanced information services segment recognized an EBIT of $337,016 and $310,217 for the quarters ended June 30, 1998 and 1997, respectively. This increase in EBIT of $26,799 is attributable an increase in margin earned offset by higher expenses.

For the Three Months Ended June 30,	1998	1997	Change
Revenue	$ 2,470,655	$ 1,911,836	$ 558,819
Cost of Sales	1,191,276	907,968	283,308
Gross Margin	1,279,379	1,003,868	275,511
Operations & Maintenance	804,839	594,918	209,921
Depreciation & Amortization	42,116	24,480	17,636
Other Taxes	95,408	74,253	21,155
EBIT	$ 337,016	$ 310,217	$ 26,799

Higher revenues are primarily due to increased consulting services, partially offset by a reduction in placement service revenues. Increased compensation and training expenses due to associated increases in staffing levels partially offset the additional revenue. To improve service to our customers, the Company opened a new office in Detroit, Michigan and increased both billable and management staffing during the second half of 1997.

Operating Income Taxes

Operating income taxes decreased due to the decrease in operating income.

decreased data processing costs, legal fees, pensions and benefits. Depreciation and amortization expense increased due to plant placed in service during the past year.

Natural Gas Transmission

The natural gas transmission segment reported EBIT of $2,334,390 for the first six months of 1998 as compared to EBIT of $1,314,290 for the corresponding period last year — an increase of $1,020,100. The increase in EBIT is primarily due to an increase in gross margin.

For the Six Months Ended June 30,	1998	1997	Change
Revenue	$ 5,632,135	$ 18,733,593	$ (13,101,458)
Cost of Gas	1,139,829	15,254,182	(14,114,353)
Gross Margin	4,492,306	3,479,411	1,012,895
Operations & Maintenance	1,418,633	1,510,372	(91,739)
Depreciation & Amortization	535,548	445,376	90,172
Other Taxes	203,735	209,373	(5,638)
EBIT	$ 2,334,390	$ 1,314,290	$ 1,020,100

Revenues and cost of gas have declined in 1998 as a result of Eastern Shore Natural Gas Company becoming an open access pipeline on November 1, 1997. On an annual basis, the additional services will generate revenue of approximately $1.3 million. Taking into account the 1997 rate increase, revenues associated with additional capacity and lower margins on services provided to industrial customers, the Company expects gross margin during 1998 to be between $7.9 and $8.2 million (see Cautionary Statement). Comparatively, gross margin for the past two years has been $7.9 and $6.7 million for 1997 and 1996, respectively. Compensation expenditures as well as lower costs associated with the maintenance of communication equipment and the pipeline system were offset by the increase in depreciation and amortization due to capital additions placed in service during the past year.

Propane Distribution and Marketing

As previously stated, Xeron has been combined with Chesapeake's propane distribution operation for financial statement reporting. Due to the high volume, low margin nature of the wholesale propane business, Xeron's revenues are strongly influenced by the wholesale cost of propane. See Note 2 to the Consolidated Financial Statements for further disclosure of Xeron's revenues and net income for the periods shown.

For the first six months of 1998, the propane segment reported EBIT of $1,325,144, as compared to $1,370,509 for the same period last year. The decrease in EBIT is due to lower margins, mostly offset by lower operating expenses.

For the Six Months Ended June 30,	1998	1997	Change
Revenue	$ 56,270,628	$ 67,694,282	$ (11,423,654)
Cost of Sales	49,438,683	60,429,061	(10,990,378)
Gross Margin	6,831,945	7,265,221	(433,276)
Operations & Maintenance	4,532,201	4,946,810	(414,609)
Depreciation & Amortization	649,681	594,820	54,861
Other Taxes	324,919	353,082	(28,163)
EBIT	$ 1,325,144	$ 1,370,509	$ (45,365)

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements reflect the capital-intensive nature of its business and are attributable principally to its construction program and the retirement of its outstanding debt. The Company relies on funds provided by operations and short-term borrowings to meet normal working capital requirements and temporarily finance capital expenditures. During the first six months of 1998, the Company's net cash flow provided by operating activities, net cash used by investing activities and net cash used by financing activities were approximately $10.6 million, $4.7 million and $8.0 million, respectively. Due to the seasonal nature of the Company's business, there are substantial variations in the results of operations reported on a quarterly basis.

The Board of Directors has authorized the Company to borrow up to $20 million from various banks and trust companies. As of June 30, 1998, the Company had four unsecured bank lines of credit, totaling $34 million. Funds provided from these lines of credit are used for short-term cash needs to meet seasonal working capital requirements and to fund portions of its capital expenditures. The outstanding balances of short-term borrowings at June 30, 1998 and 1997 were $2.1 and $9.9 million, respectively.

During the six months ended June 30, 1998 and 1997, net property, plant and equipment expenditures were approximately $4.7 and $6.1 million, respectively. Chesapeake has budgeted $15.5 million for capital expenditures during 1998. This amount includes $9.1 million and $2.0 million for natural gas and propane distribution, respectively; $3.1 million for natural gas transmission, $395,000 for advanced information services and $987,000 for general plant. The natural gas and propane distribution expenditures are for expansion and improvement of facilities in existing service territories. Natural gas transmission expenditures are for improvement and expansion of the pipeline system. The advanced information services expenditures are for computer hardware, software and related equipment. Financing for the 1998 construction program is expected to be provided from short-term borrowing and cash from operations. The construction program is subject to continuous review and modification. Actual construction expenditures may vary from the above estimates due to a number of factors including inflation, changing economic conditions, regulation, sales growth and the cost and availability of capital.

Chesapeake has budgeted $2.8 million for environmental related expenditures during 1998 and expects to incur additional expenditures in future years (see Note 4 to the Consolidated Financial Statements), a portion of which may need to be financed through external sources. Management does not expect such financing to have a material adverse effect on the financial position or capital resources of the Company.

The Company is continually evaluating new business opportunities and acquisitions, some of which may require the Company to obtain financing. Management will consider the impact of any such financing on the Company's financial position in its evaluation of the business opportunity or acquisition. Such financings are not expected to have a material adverse effect on the financial position or capital resources of the Company.

As of June 30, 1998, common equity represented 60.6% of permanent capitalization, compared to 58.1% as of December 31, 1997. The Company remains committed to maintaining a sound capital structure and strong credit ratings in order to provide the financial flexibility needed to access the capital markets when required. This commitment, along with adequate and timely rate relief for the Company's regulated operations, helps to ensure that the Company will be able to attract capital from outside sources at a reasonable cost.

31, 1998. The impact of SFAS No. 131 will only effect disclosure, as results are disaggregated. There will be no financial impact from the adoption.

Pensions and Other Post-retirement Benefits — The FASB has issued SFAS No. 132, *Employers' Disclosures about Pensions and Other Post-retirement Benefits,* for periods beginning after December 15, 1997. Interim reporting is not required prior to its adoption. This statement standardizes the disclosure requirements for pensions and other post-retirement benefits, requires additional information on changes in the benefit obligations and fair values of plan assets and eliminates certain disclosures that are no longer useful. The Company will begin making the disclosures required by SFAS No. 132 with financial statements for the period ending December 31, 1998. The impact of SFAS No. 132 will only effect disclosure. There will be no financial impact from the adoption.

Derivatives — SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Management is currently assessing any financial impact the adoption may have.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/s/ Michael P. McMasters

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

Date: August 14, 1998

CHESAPEAKE UTILITIES CORPORATION
1999 SUMMARY OF ESTIMATED CAPITAL EXPENDITURES
DISTRIBUTION UTILITY PLANT
UNAUDITED

EXHIBIT B

PLANT ACCOUNT NUMBER	DESCRIPTION	TOTAL 1999 CAPITAL ESTIMATED
301	ORGANIZATION	$0
302	FRANCHISE AND CONSENTS	$0
303	INTANGIBLE PLANT	$0
304	LAND AND LAND RIGHTS	$0
305	STRUCTURES AND IMPROVEMENTS	$0
311	LIQUIFIED PETROLEUM	$610,400
374	LAND AND LAND RIGHTS	$0
375	STRUCTURES AND IMPROVEMENTS	$10,340
376	MAINS	$4,798,563
378	M & R EQUIPMENT - GENERAL	$88,690
379	M & R EQUIPMENT - CITY GATE	$545,419
380	SERVICES	$1,178,430
381	METERS	$985,733
382	METER INSTALLATIONS	$280,832
383	HOUSE REGULATORS	$169,841
384	REGULATOR INSTALLATIONS	$0
385	INDUSTRIAL M & R STATION	$290,531
387	OTHER EQUIPMENT	$48,480
389	LAND AND LAND RIGHTS	$0
390	STRUCTURES AND IMPROVEMENTS	$111,422
391	OFFICE FURNITURE AND EQUIPMENT	$46,314
392	TRANSPORTATION	$388,403
393	STORES EQUIPMENT	$0
394	TOOLS, SHOP, AND GARAGE EQUIP	$23,320
395	LABORATORY EQUIPMENT	$0
396	POWER OPERATED EQUIPMENT	$164,750
397	COMMUNICATIONS EQUIPMENT	$33,150
398	MISCELLANEOUS EQUIPMENT	$0
399	OTHER TANGIBLE PROPERTY	$0
	TOTAL CAPITAL EXPENDITURES	$9,774,618

SOURCES AND USES OF FUNDS

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

Appendix 1

CHESAPEAKE UTILITIES CORPORATION

PERFORMANCE INCENTIVE PLAN

Effective January 1, 1992

SECTION 1. INTRODUCTION

1.01. Purpose of the Plan.

The purposes of the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") are (1) to further the long—term growth and earnings of Chesapeake Utilities Corporation (the "Company") by providing incentives and rewards to those executive officers and other key employees of the Company and its subsidiaries who are in positions in which they can contribute significantly to the achievement of that growth; (2) to encourage those employees to obtain proprietary interests in the Company and to remain as employees of the Company; and (3) to assist the Company in recruiting able management personnel. To accomplish these objectives, the Plan authorizes the grant of stock options, performance shares, stock appreciation rights, and/or tandem awards, all as further described herein.

1.02. Term of the Plan.

The Plan shall be effective as of January 1, 1992, subject to approval by the shareholders at the Company's 1992 annual meeting. Unless the Plan is terminated earlier in accordance with Section 8 hereof, the Plan shall remain in full force and effect until the close of business on December 31, 2006, at which time the right to grant Awards under the Plan shall terminate automatically unless the Board approves an extension or renewal of the Plan for a new or additional term as it may determine. Any Award granted before the right to grant Awards under the Plan terminates shall continue to be governed thereafter by the terms of the Plan and the terms of the Award Agreements governing the Awards.

SECTION 2. DEFINITIONS

2.01. Definitions.

Except where otherwise indicated, the following terms shall have the definitions set forth below for purposes of the Plan:

(a) "Award" means any award described in Section 5 hereof.

(b) "Award Agreement" means a written agreement entered into between the Company and a Participant, setting forth the terms and conditions applicable to the Award granted to the Participant.

(c) "Board" means the Board of Directors of Chesapeake Utilities Corporation.

(d) "Change in Control" means the first of the following events occurs:

(1) The registration of the Company's voting securities under the Securities Exchange Act of 1934, as amended (the "1934 Act"), terminates or the Company shall have fewer than 300 stockholders of record; or

(2) any person or group (within the meaning of Sections 13(d) and 14(d) of the 1934 Act), other than the Company, becomes the beneficial owner (within the meaning of Rule 13d—3 under the 1934 Act) of 30 percent or more of the combined voting power of the Company's then outstanding voting securities; or

(3) a tender offer or exchange offer, other than an offer by the Company, pursuant to which 30 percent or more of the combined voting power of the Company's then outstanding voting securities was purchased, expires; or

(4) the stockholders of the Company approve an agreement to merge or consolidate with another corporation (other than a majority-controlled subsidiary of the Company) unless the stockholders of the Company immediately before the merger or consolidation are to own more than 70 percent of the combined voting power of the resulting entity's voting securities; or

(5) the Company'stockholders approve an agreement (including, without limitation, a plan of liquidation) to sell or otherwise dispose of all or substantially all of the business or assets of the Company; or

(6) during any period of two consecutive years, individuals who, at the beginning of the period, constituted the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(7) the acquisition of direct or indirect beneficial ownership of more than 15 percent of the Company's then outstanding voting securities by any person or group is approved over the formal objection of the Company by the Securities and Exchange Commission pursuant to Section 9 of the Public Utility Holding Company Act of 1935, as amended.

However, no Change in Control shall be deemed to have occurred with respect to a Participant by reason of any event involving a transaction in which (i) the Participant or a group of persons or entities with which the Participant acts in concert, acquires, directly or indirectly, more than 30 percent of the common stock of the business or assets of the company; (ii) any event involving or arising out of a proceeding under Title 11 of the United States Code (or the provisions of any future United States bankruptcy law), an assignment for the benefit of creditors or an insolvency proceeding under state or local law; or (iii) any event constituting approval by the Company's stockholders of a merger or consolidation if a majority of the group consisting of the president and vice presidents of the Company who are parties to agreements conferring rights upon a Change in Control shall have agreed in writing prior to the approval that the approval shall be deemed not to constitute a Change in Control.

(e) "Committee" means the committee appointed by the Board of Directors to administer the Plan.

(f) "Common Stock" means the common stock, $.4867 par value, of the Company, including both treasury shares and authorized but unissued shares, or any security of the Company issued in substitution, exchange, or in lieu thereof.

(g) "Company" means Chesapeake Utilities Corporation or a Related Company.

(h) "Employee" means an individual who is employed by the Company.

(i) "Fair Market Value" means the average of the high and low sales price of the Common Stock, as reported on the NASDAQ/NMS (or any other reporting system as shall be selected by the Committee) on the relevant date, or if no sale of Common Stock is reported for a date, on the date or dates that the Committee determines, in its sole discretion, to be appropriate for purposes of valuation.

(j) "Participant" means any employee of the Company who has been selected by the Committee to participate in the Plan.

(k) "Person" means any individual, firm, corporation, partnership, joint venture, association, trust, or other entity.

(l) "Plan" means the Chesapeake Utilities Corporation Performance Incentive Plan, as herein set forth and as amended from time to time.

(m) Plan Year" means the calendar year.

(n) "Related Company" means a corporation, partnership, joint venture, or other entity in which Chesapeake Utilities Corporation has a direct or indirect ownership or other proprietary interest of at least fifty percent.

(o) "Rule 16b-3" means Rule 16b-3 under the Securities Exchange Act of 1934, as amended from time to time, or any successor thereto.

SECTION 3. ADMINISTRATION

3.01. The Committee.

The Plan shall be administered by a Committee appointed by the Board consisting of not fewer than three members of the Board, each of whom is a disinterested person within the meaning of Rule 16b-3. The Committee shall periodically determine, in its sole discretion, the individuals who shall participate in the Plan and the number of options, performance shares, stock appreciation rights, and/or tandem awards to be granted under the Plan. The Committee shall administer the Plan in accordance with the requirements of Rule 16b-3 and any other applicable law. All questions of interpretation and administration with respect to the Plan shall be determined by the Committee in its sole and absolute discretion. All determinations by the Committee shall be final and conclusive upon all parties. The Committee shall act by vote or written consent of a majority of its members.

3.20 Additional Powers of the Committee.

In addition to any implied powers and duties that may be needed to carry out the provisions of the Plan, the Committee shall have the following specific powers and duties:

(a) To make and enforce any rules and regulations it shall deem necessary or proper for the efficient administration of the Plan;

(b) To designate one or more officers of the Company to execute on behalf of the Company all agreements and other documents approved by the Committee under the Plan;

(c) To appoint other persons to carry out any ministerial responsibilities under the Plan as it may determine; and

(d) To employ one or more persons to render advice with respect to any of its responsibilities under the Plan.

SECTION 4. PARTICIPATION

4.01. Participation.

The Committee shall select as Participants key employees of the Company (including officers or employees who are members of the Board, but excluding directors who are not officers or employees) who the Committee determines are in positions from which they can contribute significantly to the achievement to the long-term growth, development, and financial success of the Company. An individual who is not an employee of the Company shall not be eligible to participate in the Plan. No officer or employee of the Company shall have any right to be selected as a Participant in the Plan.

SECTION 5. AWARDS

5.01. Grant of Awards.

In determining whether to grant an Award and the nature and amount of the Award, the Committee shall consider, among other factors, the eligible employee's responsibility level, performance, potential cash compensation level, and the Fair Market Value of the Common Stock at the time of the Award.

5.02. Types of Awards.

The Committee may, from time to time, grant Awards pursuant to subsections 5.03, 5.04, and 5.05, below, to one or more Participants, singly or in combination with other Awards under this or any other plan, as the Committee determines, in its sole discretion. All Awards shall be in a form determined by the Committee, provided that no Award may be inconsistent with the terms of the Plan or fail to satisfy the requirements of applicable law.

5.03. Stock Option Awards.

(a) Nonqualified Options. Each option granted under the Plan shall be a nonqualified option to purchase shares of the Company's Common Stock, pursuant to an Award Agreement.

(b) Exercise Price. The exercise price shall be 100% of the Fair Market Value of the stock at the time the option is granted, or such higher price as the Committee may establish as to any or all shares subject to the option.

(c) Form of Payment. At the time of the exercise, the exercise price shall be payable in cash or in other shares of Common Stock (including the exchange of shares received upon the exercise of a portion of a stock option to satisfy the exercise price for additional portions of the option) valued at the Fair Market Value on the date the option is exercised or in a combination of cash and other shares of Common Stock.

(d) Exercise Period. The option shall be exercisable in a manner and within a time period as set forth in the Award Agreement, the period not to exceed ten years from its date of grant.

(e) Lapse of Option. Options may be subject to lapse or termination upon retirement, death, disability, or other termination of employment of the holder on such terms as the Committee determines at the time of grant.

(f) No Voting or Dividend Rights. No holder of an option shall have any voting or dividend rights or other rights of a stockholder in respect of any shares of Common Stock covered by the option prior to the time that his name is recorded on the Company's stockholder ledger as the holder of record of the shares acquired pursuant to exercise of the option.

(g) Non-transferability. Options shall not be transferable by the Participant except by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant or by the Participant's guardian or legal representative.

(h) Restricted Stock. Option shares shall be restricted shares of the Company's Common Stock. Sale, transfer, pledge or hypothecation of the option shares shall be prohibited for a period of not less than three years from the date of issuance, unless otherwise determined by the Committee. Certificates evidencing option shares shall bear a legend to that effect. Option shares delivered by the Company may be authorized and unissued stock, treasury stock, or stock purchased on the open market.

(i) Limitations on Exercise of Options. Options may be subject to such additional limits on exercise, such as limits on the percentage of the option grant that may be exercised at each anniversary of the grant, as the Committee determines at the time of grant.

(j) Other Terms. The Award Agreement shall include other provisions determined by the Committee, including, without limitation, the following provisions: (i) the options will be exercisable either in total or in part with a partial exercise not affecting the exercise of the balance of the option and (ii) every share of stock purchased through the exercise of an option shall be paid for in full at the time of the exercise.

5.04. Performance Share Awards.

(a) Restricted Stock. Performance shares shall be restricted shares of the Company's Common Stock. Sale, transfer, pledge or hypothecation of the shares shall be prohibited for a period, of not less than three years from the date of issuance unless otherwise determined by the Committee. Certificates evidencing performance shares shall bear a legend to that effect. Each performance grant may have a different restriction period, at the Committee's discretion. The Committee may also impose other restrictions and conditions on the performance shares as it deems appropriate. Performance shares delivered by the Company may be authorized and unissued stock, treasury stock, or stock purchased on the open market.

(b) Vesting. At the Committee's discretion an award of performance shares may be contingent, subject to vesting at a future date based on the Company's achievement of a specified performance target or occurrence of another specified event. Performance shares not subject to contingencies will vest at the time of the grant.

(c) Voting Rights and Dividends. On the date the Participant becomes the holder of record of the Performance Shares the Participant shall have the right to vote the performance shares and receive the cash dividends distributable with respect to the shares.

(d) Forfeiture. Performance shares that have not vested may be subject to forfeiture upon the retirement, death, disability or other termination of employment of the recipient upon the terms that the committee determines.

(e) Non-transferability. Performance shares that have not vested shall not be transferable by the Participant except by will or the laws of descent and distribution.

5.05. Stock Appreciation Rights.

(a) Stock Appreciation Right. A stock appreciation right is the right to receive a specified number of shares of Common Stock, or cash in lieu thereof, based upon the increase in value of Common Stock over a specified period of time. Stock appreciation rights may be granted in tandem with any option granted under the Plan, either at the time of the grant of the option or at any time thereafter during the term of the option, or may be granted independently of the grant of an option.

(b) Form of Payment. Upon the exercise of stock appreciation rights, the holder shall be entitled to receive a number of shares of Common Stock equal in Fair Market Value to the amount by which the Fair Market Value of one (1) share of Common Stock on the date of exercise shall exceed the Fair Market Value of one (1) share of Common Stock on the date of the grant of the related option if the stock appreciation rights were granted in tandem with an option, or on the date of grant of the stock appreciation rights if the stock appreciation rights were granted independently of an option, multiplied by the number of shares in respect of which the stock appreciation rights shall have been exercised. The Committee may authorize settlement of all or any part of the Company's obligation arising out of an exercise of stock appreciation rights by the payment of cash equal to the aggregate Fair Market Value of shares of Common Stock

(or a fraction of a share) that the Company would otherwise be obligated to deliver under the preceding sentence of this subsection 5.05(b).

(c) Effect of Exercise on Maximum Limitation. To the extent that stock appreciation rights granted in tandem with an option shall be exercised, the related option shall be deemed to have been exercised for the purpose of the maximum limitations set forth in Section 6.01 of the Plan. In the case of stock appreciation rights granted independently of an option, the number of shares of Common Stock in respect of which the stock appreciation rights shall be exercised shall be charged against the maximum limitations.

(d) Exercise Period. Stock appreciation rights shall be exercisable in any manner and within any time period as set forth in the Award Agreement, provided that the period for exercise shall not exceed ten years from the date the exercise price is determined. The exercise of stock appreciation rights for cash by a Participant who is an officer or a director for purposes of Sections 16(a) and 16(b) of the Securities Exchange Act of 1934, as amended from time to time, shall be subject to the requirements of Section (e) of Rule 16b-3.

(e) Lapse of Right. Stock appreciation rights may be subject to lapse or termination upon retirement, death, disability, or other termination of employment of the holder on such terms as the Committee determines at the time of grant.

(f) No Voting or Dividend Rights. No holder of a stock appreciation right shall have any voting or dividend rights or other rights of a stockholder in respect of any shares of Common Stock covered by a right prior to the time that his name is recorded on the Company's stockholder ledger as the holder of record of the shares acquired pursuant to exercise of a right.

(g) Non-transferability. Stock appreciation rights shall not be transferable by the Participant except by will or the laws of descent and distribution and shall be exercisable during the Participant's lifetime only by the Participant or the Participant's guardian or legal representative.

(h) Restricted Stock. Stock appreciation shares shall be restricted shares of the Company's Common Stock. Sale, transfer, pledge or hypothecation of the shares shall be prohibited for a period of not less than three years, unless otherwise determined by the Committee. Certificates evidencing stock appreciation shares shall bear a legend to that effect. Stock appreciation shares delivered by the Company may be authorized and unissued stock, treasury stock, or stock purchased on the open market.

(i) Limitations On Exercise of Options. Stock appreciation rights may be subject to such additional limits on exercise, such as limits on the percentage of the stock appreciation rights that may be exercised at each anniversary of the grant, as the Committee determines at the time of grant.

5.06. Tandem Awards.

The Committee may grant tandem awards of options, performance shares, and stock appreciation rights. A tandem award may consist of options, subject to the terms and exercise limitations described at subsection 5.03 above, together with stock appreciation rights or performance shares that are subject to vesting upon the Company's achievement of certain performance goals, designated by the Committee. The Committee may establish minimum and maximum target earnings levels that will trigger the vesting of minimum and maximum portions of the performance shares.

5.07. Award Agreements.

Each Award under the Plan shall be evidenced by an Award Agreement setting forth the terms and conditions applicable to the Award. Award Agreements shall include:

(a) Non-Assignability. A provision that no Award Agreement shall be assignable or transferable except by will or by the laws of descent and distribution and that during the lifetime of the Participant, the Award shall be exercised only by the Participant or by his guardian or legal representative.

(b) Termination of Employment. Provisions governing the disposition of an Award in the event of retirement, disability, death or other termination of a Participant's employment or relationship to the Company.

(c) Rights as a Shareholder. A provision that a Participant shall have no rights as a shareholder with respect to any shares covered by an Award until the date on which the Participant or his nominee becomes the holder of record of the shares. Except as provided in Section 6 hereof, no adjustment shall be made for dividends or other rights for which the record date is prior to that date, unless the Award Agreement specifically requires an adjustment.

(d) Withholding. A provision requiring the withholding of any amounts that the Company reasonably determines it should withhold pursuant to any applicable law or regulation. In the case of the receipt of shares, a Participant may be required to pay to the Company in cash the amount the Company determines should be withheld prior to receipt of the shares, or alternatively, subject to any limitations as may be imposed by Rule 16b-3, a number of shares having a Fair Market Value equal to the amount to be withheld may be deducted from the payment.

(e) Change in Control. Provisions, as the Committee deems appropriate, providing that performance goals will be deemed to have been met, or that vesting of Awards will accelerate upon a Change in Control.

(f) Other Provisions. Such other terms and conditions, including the criteria for determining the vesting of Awards and the amount or value of Awards, as are consistent with the terms of the Plan and necessary or, in the view of the Committee, appropriate to grant the Award. These provisions may authorize the Committee to accelerate the time periods for purposes of vesting in, or realizing gains from, any Award granted pursuant to the Award Agreement.

SECTION 6 LIMITATIONS ON AWARDS

6.01. Limitation on Number of Shares.

Subject to any adjustment pursuant to subsection 6.02, below, the aggregate number of shares of Common Stock subject to awards granted under the Plan shall not exceed 400,000 shares. To the extent that an award lapses or the rights of the Participant to whom it was granted terminate, any shares of Common Stock subject to the award shall again be available for the grant of an award under the Plan.

6.02. Adjustment to Reflect Changes in Capital Stock.

In the event of a change in outstanding shares of Common Stock by reason of a stock dividend or split, recapitalization, combination, or exchange of shares or similar changes, appropriate adjustment shall be made in the outstanding Awards and the aggregate number of shares of Common Stock that may be awarded pursuant to subsection 6.01, above.

6.03. No Registration.

The obligation of the Company to make payment of or issue shares pursuant to any Award shall be subject to all applicable laws, rules, and regulations, and to any approvals by any government agencies as may be required. The Company shall be under no obligation to register under the Securities Act of 1933, as amended (the "Act"), any of the shares of stock issued, delivered or paid in settlement under the Plan. If Common Stock awarded under the Plan may in certain circumstances be exempt from registration under the Act, the Company may restrict its transfer in any manner as it deems advisable to ensure the exempt status.

SECTION 7 PAYMENTS OF AWARDS

7.01. Awards Solely from General Assets.

The Awards provided hereunder shall be paid solely from the general assets of the Company. Nothing herein shall be construed to require the Company or the Board to maintain any fund or to segregate any amount for the benefit of any Participant, and no Participant or other person shall have any right against, right to, or security or other interest in, any fund, account, or asset of the Company from which the payment pursuant to the Plan may be made.

7.02. Plan Expenses.

All reasonable expenses of administering the Plan shall be paid by the Company.

7.03. No Fractional Shares.

No fractional shares shall be issued pursuant to the Plan or any Award. The Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of fractional shares, or whether fractional shares or any rights thereto shall be canceled, terminated, or otherwise eliminated.

SECTION 8 AMENDMENT AND TERMINATION

8.01. Amendment or Termination of Plan.

Subject to the provisions of this Section 8, the Board may, from time to time, alter, amend, suspend or terminate the Plan as it shall deem advisable, subject to any requirement for shareholder approval imposed by applicable law; provided that the Board may not amend the Plan in any manner that would result in noncompliance with Rule 16b-3 or any applicable law.

8.02. Change in Control.

Notwithstanding subsection 8.01, above, on or after the occurrence of a Change in Control, no direct or indirect alteration, amendment, suspension, termination or discontinuance of the Plan, no establishment or modification of rules, regulations or procedures under the Plan, no interpretation of the Plan or determination under the Plan, and no exercise of authority or discretion vested in the Committee under any provision of the Plan (collectively or individually, a "Change") shall be made if the Change (i) is not required by applicable law or necessary to meet the requirements of Rule 16b-3, and (ii) would have the effect of:

(a) eliminating, reducing or otherwise adversely affecting a Participant's, former Participant's or beneficiary's rights with respect to any Award,

(b) altering the meaning or operation of the definition of "Change in Control" in Section 2, above (and of the definition of all the defined terms that appear in the definition of "Change in Control"), the provisions of this Section 8, or any rule, regulation, procedure, provision or determination made or adopted prior to the Change in Control pursuant to this Section 8 or any provision in any rule, regulation, procedure, provision or determination made or adopted pursuant to the Plan that becomes effective upon the occurrence of a Change in Control (collectively, the "Change in Control Provisions"), or

(c) undermining or frustrating the intent of the Change in Control Provisions to secure for Participants, former Participants and beneficiaries the maximum rights and benefits that can be provided under the Plan.

Upon and after the occurrence of a Change in Control, all rights of all Participants, former participants and beneficiaries under the plan (including without limitation any rules regulations or procedures promulgated under the Plan) shall be contractual rights enforceable against the Company and any successor to all or substantially all of the Company's business or assets. The Change in Control Provisions may be altered, amended or suspended at any time before the date on which a Change in Control occurs; provided that any alteration, amendment or suspension of the Change in Control Provisions that is made before the date on which a Change in Control occurs, and at the request of a person who effectuates the Change in Control, shall be treated as though it occurred after the Change in Control and shall be subject to the restrictions and limitations imposed by the preceding provisions of the immediately preceding paragraph.

8.03. Other Plans.

Nothing herein shall preclude the Committee from authorizing or approving other plans or forms of incentive compensation. The Committee shall have the right to determine the extent to which any Participant shall participate in this Plan in addition to any other plan or plans of the Company in which he shall participate.

SECTION 9 MISCELLANEOUS

9.01. No Right To Employment.

The receipt of an Award under the Plan shall not give any employee any right to continued employment by the Company, and the right to dismiss any employee is specifically reserved to the Company. The receipt of an Award with respect to any Plan Year shall not give an employee the right to receive an Award with respect to any subsequent Plan Year.

9.02. Taxes.

The Committee may make any appropriate arrangements to deduct from all amounts paid under the Plan any taxes that the Committee believes to be required to be withheld by any government or government agency. The Participant and/or his beneficiary shall bear all taxes on amounts paid under the Plan to the extent that no taxes are withheld, irrespective of whether withholding is required.

9.03. Headings.

Any headings in this instrument are for convenience of reference only and are to be ignored in the construction of any provision hereof.

9.04. Severability.

If any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had never been inserted herein.

9.05. Governing Law.

The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Delaware and any applicable requirements of federal law.