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

FORM 10-K

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

For the Fiscal Year Ended: December 31, 2008

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

8.25% Convertible Debentures Due 2014
(Title of class)

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

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

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

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. ☑

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

Large accelerated filer o   Accelerated filer ☑   Non-accelerated filer o   Smaller Reporting Company o

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

CHESAPEAKE UTILITIES CORPORATION

FORM 10-K

YEAR ENDED DECEMBER 31, 2008

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GLOSSARY OF KEY TERMS

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

Subsidiaries of Chesapeake Utilities Corporation

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

Regulatory Agencies

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

Other

AOCI	Accumulated Other Comprehensive Income
AS/SVE	Air Sparging and Soil/Vapor Extraction
CGS	Community Gas Systems
Columbia	Columbia Gas Transmission Corporation
DSCP	Directors Stock Compensation Plan
Dts	Dekatherms

E3 Project	ESNG Energylink Expansion Project
ER	Environmental rider
EITF	Financial Accounting Standards Board Emerging Issues Task Force
FIN	Financial Accounting Standards Board Interpretation Number
FSP	Financial Accounting Standards Board Staff Position
GAAP	Generally Accepted Accounting Principles
GSR	Gas sales service rates

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

Accounting Standards

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

Hedging Activities

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

PART I

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

Safe Harbor for Forward-Looking Statements

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

ITEM 1. BUSINESS.

(a) General

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

Chesapeake is composed of four operating segments:

- *Natural Gas.* The natural gas segment includes regulated natural gas distribution and transmission operations and also a non-regulated natural gas marketing operation.

- *Propane.* The propane segment includes non-regulated propane distribution and wholesale marketing operations.

- *Advanced Information Services.* The advanced information services segment provides domestic and international clients with information-technology-related business services and solutions for both enterprise and e-business applications.

- *Other.* The other segment consists primarily of non-regulated operations that own real estate leased to other Company subsidiaries.

(b) Financial Information About Business Segments

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

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

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

(c) Narrative Description of the Business

(i)(a) Natural Gas

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

Natural Gas Distribution

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

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

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

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

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

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

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

Natural Gas Transmission

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

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

(1) Operating revenues from "Other" sources is from rental of gas properties.

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

Natural Gas Marketing

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

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

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

Gas Supplies, Firm Transportation and Storage Capacity

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

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

Delaware.

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

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

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

Maryland.

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

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

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

Florida.

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

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

ESNG.

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

PESCO.

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

Competition

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

Rates and Regulation

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

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

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

Regulatory Proceedings

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

Seasonality of Natural Gas Revenues

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

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

(i)(b) Propane

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

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

Propane Distribution.

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

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

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

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

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

Propane Wholesale Marketing.

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

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

Competition

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

Rates and Regulation

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

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

Seasonality of Propane Revenues

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

(i)(c) Advanced Information Services

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

Competition

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

(i)(d) Other Subsidiaries

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

(ii) Capital Budget

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

(iii) Employees

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

(iv) Financial Information about Geographic Areas

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

(d) Available Information

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

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

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

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

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

ITEM 1A. RISK FACTORS.

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

Financial Risks

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

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

Current levels of market volatility are unprecedented.

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

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

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

The unsoundness of financial institutions could adversely affect the Company.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operational Risks

Fluctuations in weather may adversely affect our results of operations, cash flows and financial condition.

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

The amount and availability of natural gas and propane supplies are difficult to predict; a substantial reduction in available supplies could reduce our earnings in those segments.

Natural gas and propane production can be affected by factors beyond our control, such as weather and refinery closings. If we are unable to obtain sufficient natural gas and propane supplies to meet demand, results in those segments may be adversely affected.

We rely on having access to interstate natural gas pipelines' transportation and storage capacity; a substantial disruption or lack of growth in these services may impair our ability to meet customers' existing and future requirements.

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

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

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

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

Our propane inventory is subject to inventory risk, which may adversely affect our results of operations and financial condition.

The Company's propane distribution operations own bulk propane storage facilities, with an aggregate capacity of approximately 2.5 million gallons. We purchase and store propane based on several factors, including inventory levels and the price outlook. We may purchase large volumes of propane at current market prices during periods of low demand and low prices, which generally occur during the summer months. Propane is a commodity, and, as such, its unit price is subject to volatile fluctuations in response to changes in supply or other market conditions. We have no control over these market conditions. Consequently, the unit price of the propane that we purchase can change rapidly over a short period of time. The market price for propane could fall below the price at which we made the purchases, which would adversely affect our profits or cause sales from that inventory to be unprofitable. In addition, falling propane prices may result in inventory write-downs as required by Generally Accepted Accounting Principles ("GAAP") if the market price of propane falls below our weighted average cost of inventory, and therefore, could adversely affect net income.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in customer growth may affect earnings and cash flows.

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

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

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

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

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

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

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

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

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

Unionization campaigns could adversely affect our results of operations.

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

Regulatory and Legal Risks

Regulation of the Company, including changes in the regulatory environment, may adversely affect our results of operations, cash flows and financial condition.

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

We are dependent upon construction of new facilities to support future growth in earnings in our natural gas distribution and interstate pipeline operations.

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

We are subject to operating and litigation risks that may not be fully covered by insurance.

Our operations are subject to the operating hazards and risks normally incidental to handling, storing, transporting and delivering natural gas and propane to end users. As a result, we are sometimes a defendant in legal proceedings arising in the ordinary course of business. We maintain insurance policies with insurers in such amounts and with such coverages and deductibles as we believe are reasonable and prudent. There can be no assurance, however, that such insurance will be adequate to protect us from all material expenses related to potential future claims for personal injury and property damage or that such levels of insurance will be available in the future at economical prices.

Environmental Risks

***Costs of compliance with environmental laws may be significant*.**

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

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

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

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

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

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

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

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

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

(a) General

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

(b) Natural Gas Distribution

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

(c) Natural Gas Transmission

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

(d) Propane Distribution and Wholesale Marketing

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

ITEM 3. LEGAL PROCEEDINGS.

(a) General

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

(b) Environmental

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

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

None

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

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

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

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

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

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

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

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

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PART II

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

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

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

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

Holders

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

Dividends

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

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

(b) Purchases of Equity Securities by the Issuer

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

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

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

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

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

(c) Chesapeake Utilities Corporation Common Stock Performance Graph

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

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

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

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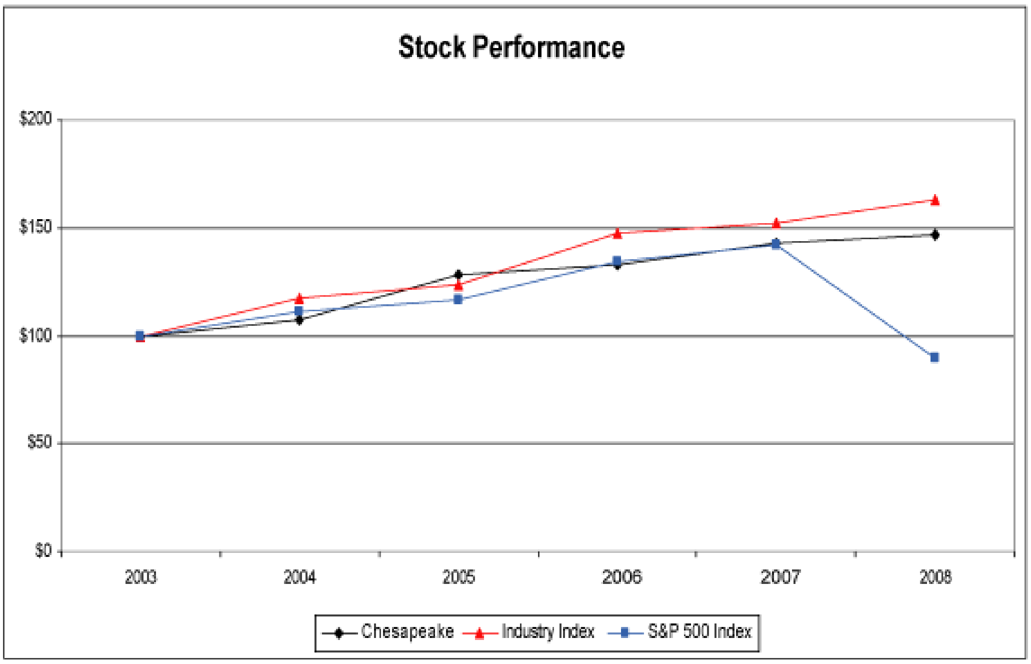

	2003	2004	2005	2006	2007	2008
Chesapeake	$ 100	$ 107	$ 128	$ 133	$ 143	$ 147
Industry Index	$ 100	$ 117	$ 123	$ 147	$ 152	$ 163
S&P 500 Index	$ 100	$ 111	$ 116	$ 135	$ 142	$ 90

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Item 6. Selected Financial Data

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

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

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

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

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

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ITEM 6. SELECTED FINANCIAL DATA

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

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

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

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

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

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

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

INTRODUCTION

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

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

EXECUTIVE OVERVIEW

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

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

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

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

Management's Discussion and Analysis

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

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

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

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

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

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

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

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

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

Operating Income

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

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

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

Critical Accounting Policies

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

Regulatory Assets and Liabilities

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

Valuation of Environmental Assets and Liabilities

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

Management's Discussion and Analysis

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

Derivatives

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

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

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

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

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

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

Operating Revenues

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

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

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

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

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

Allowance for Doubtful Accounts

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

Pension and other Postretirement Benefits

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

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

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Results of Operations

Net Income & Diluted Earnings Per Share Summary

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

* *Dollars in thousands.*

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

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

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

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Operating Income Summary (in thousands)

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

2008 Compared to 2007

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

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

- The Company continued to invest in property, plant and equipment to support current and future growth opportunities, expending $30.8 million in 2008 for such purposes.

- Even though banks were tightening their lending in response to the current financial crisis, Chesapeake was able to firm up its credit lines during this volatile period by increasing its total committed short-term borrowing capacity from $15.0 million to $55.0 million. In addition, on October 31, 2008, the Company executed a $30.0 million long-term debt placement of 5.93 percent Unsecured Senior Notes.

2007 Compared to 2006

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

- New transportation capacity contracts implemented for the natural gas transmission operation in November 2006 and November 2007 provided for $3.3 million of additional gross margin in 2007.

- Weather on the Delmarva Peninsula was 15 percent colder in 2007 than in 2006, which, the Company estimates contributed approximately $2.0 million in additional gross margin for its Delmarva natural gas and propane distribution operations. This amount differs from the $2.2 million of additional gross margin that the Company had expected the colder weather to contribute, as a result of the season or month that the heating degree-day variance occurred.

- Rate increases to customers of the natural gas transmission and distribution operations in Delaware and Maryland added $1.4 million to gross margin in 2007.

- Strong period-over-period residential customer growth of seven percent and five percent, respectively, was achieved for the Delmarva and Florida natural gas distribution operations in 2007.

- The average gross margin per retail gallon sold to customers increased by $0.05 in 2007 for the Delmarva propane distribution operations, which contributed $1.1 million to gross margin.

- The Delmarva Community Gas Systems continued to experience strong customer growth as the number of customers increased by 22 percent in 2007.

Natural Gas

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

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

Heating Degree-Day (HDD) and Customer Analysis

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

2008 Compared to 2007

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

Natural Gas Transmission

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

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

- The remaining facilities to be constructed under the operation's multi-year system expansion will be placed into service in November 2009. These services will provide for 7,200 dts of firm service capacity per day and will generate $1.0 million of annualized gross margin. For the years 2009 and 2010, these facilities will contribute $169,300 and $846,700, respectively, to gross margin.

- On February 5, 2009, ESNG entered into a firm transportation service agreement with an industrial customer in Northern Delaware for the period of February 6, 2009 through October 31, 2009. Pursuant to this agreement, ESNG will provide firm transportation service for a maximum of 7,200 Dts and will recognize gross margin of approximately $573,000 for this service. Subsequent to execution of this agreement, the two parties entered into a second Precedent Agreement for an additional 10,000 Dts of daily firm transportation service beginning November 1, 2009 and ending October 31, 2012. In conjunction with providing this service, ESNG expects to earn additional gross margin of approximately $1.1 million. For the years 2009 and 2010, these two agreements will contribute $753,900 and $1.1 million, respectively, to gross margin.

Management's Discussion and Analysis

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

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

Natural Gas Distribution

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

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

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

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

- The remaining $77,000 net increase to gross margin was attributable to various other items.

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

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

- Corporate overhead increased approximately $777,000 due to the allocation of the unconsummated acquisition costs and the higher costs previously discussed.

- Costs for corporate services increased approximately $420,000 as a result of increased information technology spending to improve the infrastructure, including system performance and disaster recovery. In addition, the Company increased its information technology support.

- Property taxes increased by $298,000 as a result of the Company's continued capital investments.

- Incentive compensation increased by $225,000 as the Delmarva and Florida operations experienced improved earnings compared to the prior year.

- Costs relating to outside services, such as legal fees and consulting costs, increased by $208,000 to support several new projects.

- Payroll and benefits costs for the Delmarva operations increased by $187,000 and $97,000, respectively, from annual salary increases, as compared to the previous year.

- Regulatory expenses increased by $126,000 as the natural gas distribution operations incurred costs associated with regulatory filings with their respective PSCs.

- Vehicle fuel and depreciation expense increased by $68,000 and $57,000, respectively, compared to the prior year as a result of rising costs of gasoline and diesel fuel, and higher depreciation rates for vehicles.

- Depreciation expense and asset removal costs decreased by $114,000 and $1.3 million, respectively, primarily as a result of the Delmarva operations' rate proceedings, which provided for lower depreciation allowances and lower asset removal cost allowances.

- Maintenance costs for the Florida operation decreased by $66,000, compared to 2007, when larger expenditures were required to comply with federal pipeline integrity regulations.

- Merchant payment fees decreased by $79,000, which resulted primarily from the Delmarva operations outsourcing the processing of credit card payments in April 2007.

- In addition, other operating expenses relating to various other items increased by approximately $5,000.

Natural Gas Marketing

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

Management's Discussion and Analysis

2007 Compared to 2006

Gross margin for the Company's natural gas segment increased by $7.2 million, or 14 percent, and other operating expenses increased by $4.5 million, or 14 percent, for 2007 compared to 2006. Of the total gross margin increase of $7.2 million, $3.9 million was generated by the natural gas transmission operation and $3.5 million was generated by the natural gas distribution operations. These increases were partially offset by a lower gross margin of $207,000 for the natural gas marketing operation, as further explained below.

Natural Gas Transmission

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

- Payroll and benefit costs increased by $282,000 and $90,000, respectively, as the operation increased staff to support compliance with new federal pipeline integrity regulations and to serve the additional growth. The new pipeline integrity regulations require the Company to assess at least 50 percent of the covered segments by December 17, 2007.

- ESNG also incurred an additional $385,000 of third-party costs to comply with the new federal pipeline integrity regulations previously discussed.

- The increased level of capital investment caused higher depreciation and asset removal costs of $371,000 and increased property taxes of $188,000.

- Corporate costs increased by $568,000 as the Company updated its annual corporate cost allocations based on a methodology accepted by the FERC.

- The increase in operating expenses for 2007 was magnified by the FERC's authorization, in July 2006, to defer certain pre-service costs of ESNG's Energylink Expansion Project ("E3 Project"), allowing the Company to treat such costs as a regulatory asset. The deferral of these costs resulted in the reduction of $190,000 in other operating expenses in 2006 for expenses incurred in 2005. Please refer to the "Rates and Other Regulatory Activities" section of Note O, "Other Commitments and Contingencies," in the Notes to the Consolidated Financial Statements further information on the E3 Project.

- Other operating expenses relating to various items increased collectively by approximately $226,000.

Natural Gas Distribution

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

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

- Continued residential customer growth contributed to the increase in gross margin. The average number of residential customers on the Delmarva Peninsula increased by 2,950, or seven percent, for 2007 compared to 2006, and the Company estimates that these additional residential customers contributed approximately $1.2 million to gross margin.

- Rate increases for both the Delaware and Maryland divisions generated an additional $848,000 in gross margin in 2007 compared to 2006. In October 2006, the Maryland PSC granted the Company a base rate increase, which resulted in a $693,000 period-over-period increase to gross margin in 2007. The Delaware division received approval from the Delaware Public Service Commission ("Delaware PSC") to implement temporary rates, subject to refund, which contributed an additional $155,000 to gross margin in 2007.

- The Company estimates that weather contributed $819,000 to gross margin in 2007 compared to 2006, as temperatures on the Delmarva Peninsula were 15 percent colder in 2007. This amount differs from the $1.1 million of additional gross margin that the Company had expected the colder weather to contribute as a result of the month in which the heating degree day variance occurred.

- The colder temperatures did not have a significant impact on the Maryland distribution operation's gross margin in 2007, because the operation's approved rate structure included a weather normalization adjustment mechanism. The weather normalization adjustment, implemented in October 2006, was designed to reduce excessive revenue swings caused by weather that is warmer or colder than normal.

- Growth in commercial and industrial customers contributed $224,000 and $102,000, respectively, to gross margin in 2007.

- Increased sales volumes to interruptible customers contributed $224,000 to gross margin in 2007.

- The remaining $31,000 increase in gross margin can be attributed to various other factors.

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

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

- Payroll costs increased by $110,000 as vacant positions in 2006 were filled in 2007 and new positions were added to serve the growth experienced by the operations.

- Health care costs increased by $177,000 as a result of additional personnel and a higher cost of claims.

- Incentive compensation increased by $229,000 in 2007 as the Delmarva operations experienced improved earnings and increased staffing levels.

- Depreciation and amortization expense, asset removal cost and property taxes increased by $316,000, $121,000 and $156,000, respectively, as a result of continued capital investments.

- The Florida distribution operation experienced increased expense of $227,000 in 2007 to maintain compliance with the new federal pipeline integrity regulations.

- Sales and advertising costs increased by $129,000 in 2007, primarily to promote energy conservation and customer awareness of the availability of natural gas service.

- Regulatory expenses increased by $113,000 as the Delaware and Maryland operations began expensing costs associated with their respective rate cases.

- The allowance for uncollectible accounts increased by $183,000 in 2007 due to increased revenues resulting from customer growth and colder temperatures.

- Merchant payment fees decreased by $116,000 as the Company's Delmarva operation outsourced the processing of credit card payments in April 2007.

- Other operating expenses relating to various other items increased by approximately $355,000.

Natural Gas Marketing

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

Management's Discussion and Analysis

Propane

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

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

Propane Heating Degree-Day (HDD) Analysis — Delmarva

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

2008 Compared to 2007

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

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

Delmarva Propane Distribution

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

- Gross margin decreased by $1.1 million in 2008, compared to 2007, primarily because of a $0.04 decrease in the average gross margin per retail gallon attributable to inventory write-downs of approximately $800,000 during 2008 in response to market prices below the Company's inventory price per gallon. This trend reverses when market prices of propane exceed the Company's average inventory price per gallon.

- Wholesale propane prices rose dramatically during the spring months of 2008, when they are traditionally falling. In efforts to protect the Company from the impact that additional price increases would have on our Pro-Cap (propane price cap) Plan that we offer to customers, the propane distribution operation entered into a swap agreement. By the end of the period, the market price of propane had plummeted well below the unit price in the swap agreement. As a result, the Company marked the agreement relating to the January 2009 and February 2009 gallons to market, which increased cost of sales by $939,000 in 2008. In January 2009, the Company terminated this swap agreement.

- Non-weather-related volumes sold in 2008 decreased by 1.2 million gallons, or five percent. This decrease in gallons sold reduced gross margin by approximately $867,000 for the Delmarva propane distribution operation. Factors contributing to this decrease in gallons sold included customer conservation and the timing of propane deliveries.

- Margins per gallon on the Pro-Cap plan for the last four months of 2008 recovered to prior year's levels with the exception of $113,000, despite the Company realizing a charge to cost of sales of $494,000 as the December gallons related to this plan were valued at current market prices.

- Temperatures on the Delmarva Peninsula were two percent warmer in 2008 compared to 2007, which contributed to a decrease of 248,000 gallons sold, or one percent. The Company estimates that the warmer weather and decreased volumes sold had a negative impact of approximately $180,000 on gross margin for the Delmarva propane distribution operation.

- Gross margin from miscellaneous fees, including items such as tank and meter rentals and marketing pricing programs, increased by $271,000.

- The remaining $172,000 net decrease in gross margin can be attributed to various other items.

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

- Corporate overhead increased by approximately $380,000 due to the allocation of the unconsummated acquisition costs and the higher costs previously discussed.

- Vehicle fuel and maintenance costs increased by $235,000 as a result of higher gasoline and diesel fuel costs and continued maintenance of our delivery vehicles.

- Costs for corporate services increased by approximately $120,000 as a result of increased information technology spending to improve the infrastructure, including system performance and disaster recovery. In addition, the Company increased its information technology support.

- Mains fees increased by $81,000 in 2008, compared to 2007, as a result of added Community Gas Systems ("CGS") customers. This expenditure will continue to increase as more CGS customers are added.

- Depreciation and amortization expense increased by $81,000 as a result of an increase in the Company's capital investments compared to the prior year.

- The allowance for uncollectible accounts increased by $65,000 due to increased revenues.

- Incentive compensation decreased by $387,000 as a result of the lower operating results in 2008.

- Lower expenses of $199,000 were incurred in 2008 for propane tank recertifications and maintenance as the Company incurred these costs in 2007 to maintain compliance with DOT standards, which require propane tanks or cylinders to be recertified twelve years from their date of manufacture and every five years thereafter.

- Other operating expenses relating to various items increased by approximately $127,000.

Florida Propane Distribution

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

Propane Wholesale and Marketing

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

Management's Discussion and Analysis

2007 Compared to 2006

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

Delmarva Propane Distribution

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

- Gross margin increased by $1.1 million in 2007, compared to 2006, because of a $0.05 increase in the average gross margin per retail gallon. This increase occurs when market prices of propane exceed the Company's average inventory price per gallon and reverses when market prices move closer to the Company's average inventory price per gallon. Propane gross margin is also affected by changes in the Company's pricing of sales to its customers.

- Temperatures on the Delmarva Peninsula were 15 percent colder in 2007 compared to 2006, which contributed to the increase of 1.7 million retail gallons, or nine percent, sold during 2007. The Company estimates that the colder weather and increased volumes sold contributed $1.1 million to gross margin for the Delmarva propane distribution operation in 2007 compared to 2006.

- Non-weather related retail volumes sold in 2007 increased by 1.0 million gallons, or six percent. This increase in gallons sold contributed approximately $665,000 to gross margin for the Delmarva propane distribution operation compared to 2006. Contributing to the increase of gallons sold was the continued growth in the average number of CGS customers, which increased by 972 to a total count of 5,330, or a 22-percent increase, compared to 2006.

- Wholesale volumes sold in 2007 increased by 2.9 million gallons, or 70 percent, which contributed approximately $119,000 to gross margin for the Delmarva propane distribution operation.

- The remaining $216,000 increase in gross margin can be attributed to various other factors, including higher service sales and service fees.

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

- Increased operating expenses for 2007 were magnified by the Company's one-time recovery in 2006 of previously incurred costs of $387,000 from one of its propane suppliers in 2006. This recovery reimbursed the Company for fixed costs incurred in the removal of above-normal levels of petroleum by-products contained in approximately 75,000 gallons of propane that it purchased from the supplier. The recovery of these costs reduced other operating expenses in the first nine months of 2006.

- Incentive compensation increased by $361,000 as a result of the improved operating results in 2007.

- Health care costs increased by $119,000 as the Company experienced a higher cost of claims during the year.

- The operation incurred an additional $233,000 expense for propane tank recertifications and maintenance to maintain compliance with DOT standards, which require propane tanks or cylinders to be recertified twelve years from their date of manufacture and every five years thereafter.

- Mains fees increased by $100,000 as a result of new CGS customers.

- Depreciation and amortization expense increased by $107,000 as a result of increased capital investments.

- In addition, other operating expenses relating to various items increased by approximately $193,000.

Florida Propane Distribution

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

Propane Wholesale and Marketing

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

Advanced Information Services

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

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

2008 Compared to 2007

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

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

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

2007 Compared to 2006

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

Management's Discussion and Analysis

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

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

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

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

Other Operations and Eliminations

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

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

Other Income

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

Interest Expense

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

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

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

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

- As a result of fewer capital projects in 2007 compared to 2006, the Company capitalized $469,000 less interest on debt in 2007 associated with ongoing capital projects.

- The Company's average long-term debt balance during 2007 was $76.5 million, with a weighted average interest rate of 6.71 percent, compared to $67.2 million, with a weighted average interest rate of 6.98 percent, for 2006. The large year-over-year increase in the average long-term debt balance was the result of a debt placement of $20 million in Senior Notes at 5.5 percent in October 2006 with three institutional investors (The Prudential Insurance Company of America, Prudential Retirement Insurance and Annuity Company and United Omaha Life Insurance Company).

- The average short-term borrowing balance in 2007 decreased by $6.3 million to $20.6 million compared to an average balance of $26.9 million in 2006. The weighted average interest rates for short-term borrowing of 5.46 percent for 2007 and 5.47 percent for 2006 had minimum impact on the change in short-term borrowing expense.

Income Taxes

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

Discontinued Operations

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

Liquidity and Capital Resources

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

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

Management's Discussion and Analysis

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

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

Capital Structure

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

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

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

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

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

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

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

Shelf Registration

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

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

Cash Flows Provided by Operating Activities

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

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

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

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

Cash Flows From Operating Activities

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

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

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

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

Cash Flows Used in Investing Activities

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

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

Cash Flows Provided by Financing Activities

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

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

- In November 2006, the Company sold 690,345 shares of common stock, which included the underwriter's exercise of an over-allotment option of 90,045 shares, pursuant to a shelf registration statement declared effective in November 2006, generating net proceeds of $19.7 million.

- In August 2006, the Company paid cash of $435,000, in lieu of issuing shares of the Company's common stock, for the 30,000 stock warrants outstanding at December 31, 2005.

Contractual Obligations

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

Rate Filings and Other Regulatory Activities

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

Environmental Matters

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

Market Risk

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

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

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

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

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

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

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

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

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

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

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

Competition

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

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

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

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

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

Inflation

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

Cautionary Statement

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

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

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Management's Report on Internal Control Over Financial Reporting

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

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

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

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

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

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

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

Consolidated Statements of Income

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
of Chesapeake Utilities Corporation

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

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

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

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

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

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

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

Consolidated Statements of Cash Flows

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

Supplemental Cash Flow Disclosures (see Note D)

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

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Consolidated Balance Sheets

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

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

Consolidated Balance Sheets

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

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

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Consolidated Statements of Stockholders' Equity

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

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

(2) Includes amounts for shares issued for Directors' compensation.

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

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

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

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

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

Consolidated Statements of Income Taxes

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

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

(1) Includes $1,588,000, $260,000 and ($60,000) of deferred state income taxes for the years 2008, 2007 and 2006, respectively.

(2) Federal income taxes were recorded at 35% for each year represented.

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

A. Summary of Accounting Policies

Nature of Business

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

Principles of Consolidation

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

System of Accounts

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

Property, Plant, Equipment and Depreciation

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

Cash and Cash Equivalents

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

Inventories

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

Regulatory Assets, Liabilities and Expenditures

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

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

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

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

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

Notes to the Consolidated Financial Statements

Goodwill and Other Intangible Assets

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

Other Deferred Charges

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

Pension and Other Postretirement Plans

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

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

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

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

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

Income Taxes and Investment Tax Credit Adjustments

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

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

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

Financial Instruments

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

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

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

Notes to the Consolidated Financial Statements

Earnings Per Share

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

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

Operating Revenues

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

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

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

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

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

Cost of Sales

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

Operations and Maintenance Expenses

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

Depreciation and Accretion Included in Operations Expenses

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

Allowance for Doubtful Accounts

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

Certain Risks and Uncertainties

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

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

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

Recent accounting pronouncements:

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

During 2008, the Company adopted the following accounting standards:

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

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

Notes to the Consolidated Financial Statements

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

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

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

Reclassification of Prior Years' Amounts

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

B. Business Dispositions and Discontinued Operations

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

C. Segment Information

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

D. Supplemental Cash Flow Disclosures

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

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

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

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

E. Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Level 1 Fair Value Measurements:

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

Level 2 Fair Value Measurements:

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

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

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

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

Notes to the Consolidated Financial Statements

F. Investments

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

G. Goodwill and Other Intangible Assets

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

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

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

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

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H. Stockholders' Equity

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

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

(1) 12,000,000 shares are authorized at a par value of $0.4867 per share.

(2) Includes shares purchased with reinvested dividends and optional cash payments.

(3) Includes shares issued for Directors' compensation.

(4) Includes 62,221, 57,309, and 48,187 shares at December 31, 2008, 2007 and 2006, respectively, held in a Rabbi Trust established by the Company relating to the Deferred Compensation Plan.

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

Notes to the Consolidated Financial Statements

I. Long-term Debt

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

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

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

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

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

Debt Covenants

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

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

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

J. Short-term Borrowing

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

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

Credit facilities

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

Committed credit facilities

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

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

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

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

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

Uncommitted credit facilities

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

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

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

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

K. Lease Obligations

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

L. Employee Benefit Plans

Retirement Plans

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

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

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

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

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

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

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

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

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

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

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

Defined Benefit Pension Plan

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Pension Supplemental Executive Retirement Plan

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

Other Postretirement Benefits

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

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

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

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

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

Estimated Future Benefit Payments

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

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

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

(2) Benefit payments are expected to be paid out of the general funds of the Company.

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

Retirement Savings Plan

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

Deferred Compensation Plan

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

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

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

M. Share-Based Compensation Plans

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

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

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

Stock Options

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

Directors Stock Compensation Plan

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

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

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

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

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

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

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

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

Performance Incentive Plan ("PIP")

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

N. Environmental Commitments and Contingencies

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

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

Dover Gas Light Site

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

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

Salisbury Town Gas Light Site

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

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

Winter Haven Coal Gas Site

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

Notes to the Consolidated Financial Statements

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

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

Other

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

O. Other Commitments and Contingencies

Rates and Other Regulatory Activities

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

E3 Project. In 2006, ESNG proposed to develop, construct and operate approximately 75 miles of new pipeline facilities to transport natural gas from the existing Cove Point Liquefied Natural Gas terminal located in Calvert County, Maryland, crossing under the Chesapeake Bay into Dorchester and Caroline Counties, Maryland, to points on the Delmarva Peninsula, where such facilities would interconnect with ESNG's existing facilities in Sussex County, Delaware.

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

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

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

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

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

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

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

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

Natural Gas and Propane Supply

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

Corporate Guarantees

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

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

Internal Revenue Service Examination

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

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

Other

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

Notes to the Consolidated Financial Statements

P. Quarterly Financial Data (Unaudited)

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

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

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

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

CEO and CFO Certifications

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

Management's Report on Internal Control Over Financial Reporting

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

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

Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

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

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

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

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

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

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

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

Item 9B. Other Information.

None

Part III

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

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

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

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

Item 11. Executive Compensation.

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

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

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

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

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

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

(2) All warrants were exercised in 2006.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

None

Item 14. Principal Accounting Fees and Services.

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

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

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

1. Financial Statements:

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

2. Financial Statement Schedule:

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

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

3. Exhibits

- Exhibit 1.1 Underwriting Agreement entered into by Chesapeake Utilities Corporation and Robert W. Baird & Co. Incorporated and A.G. Edwards & Sons, Inc., on November 15, 2007, relating to the sale and issuance of 600,300 shares of the Company's common stock, is incorporated herein by reference to Exhibit 1.1 of the Company's Current Report on Form 8-K, filed November 16, 2007, File No. 001-11590.

- Exhibit 3.1 Restated Certificate of Incorporation of Chesapeake Utilities Corporation is incorporated herein by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1998, File No. 001-11590.

- Exhibit 3.2 Amended and Restated Bylaws of Chesapeake Utilities Corporation, effective December 11, 2008, are filed herewith.

- Exhibit 4.1 Form of Indenture between the Company and Boatmen's Trust Company, Trustee, with respect to the 8 1/4% Convertible Debentures is incorporated herein by reference to Exhibit 4.2 of the Company's Registration Statement on Form S-2, Reg. No. 33-26582, filed on January 13, 1989.

- Exhibit 4.2 Note Purchase Agreement, entered into by the Company on October 2, 1995, pursuant to which the Company privately placed $10 million of its 6.91% Senior Notes, due in 2010, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.3 Note Purchase Agreement, entered into by the Company on December 15, 1997, pursuant to which the Company privately placed $10 million of its 6.85% Senior Notes due in 2012, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

- Exhibit 4.4 Note Purchase Agreement entered into by the Company on December 27, 2000, pursuant to which the Company privately placed $20 million of its 7.83% Senior Notes, due in 2015, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

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

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

- Exhibit 4.7 Note Agreement entered into by the Company on October 31, 2008, pursuant to which the Company, on October 31, 2008, privately placed $30 million of its 5.93% Senior Notes, due in 2023, with General American Life Insurance Company and New England Life Insurance Company, is not being filed herewith, in accordance with Item 601(b)(4)(iii) of Regulation S-K. The Company hereby agrees to furnish a copy of that agreement to the SEC upon request.

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

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

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

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

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

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

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

- Exhibit 10.5* Chesapeake Utilities Corporation Deferred Compensation Plan, as amended and restated effective January 1, 2009, is filed herewith.

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

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

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

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

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

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

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

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

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

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

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

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

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

- Exhibit 10.19* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Michael P. McMasters, is incorporated herein by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.20* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.21* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Stephen C. Thompson, is incorporated herein by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.22* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.17 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.23* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and Beth W. Cooper, is incorporated herein by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.24* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.19 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.25* Performance Share Agreement dated January 23, 2008 for the period 2008 to 2010, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and S. Robert Zola, is incorporated herein by reference to Exhibit 10.20 of the Company's Annual Report on Form 10-K for the year ended December 31, 2007, File No. 001-11590.

- Exhibit 10.26* Form of Performance Share Agreement effective January 7, 2009, pursuant to Chesapeake Utilities Corporation Performance Incentive Plan by and between Chesapeake Utilities Corporation and each of John R. Schimkaitis, Michael P. McMasters, Beth W. Cooper, and Stephen C. Thompson, is filed herewith.

- Exhibit 10.27* Chesapeake Utilities Corporation Supplemental Executive Retirement Plan, as amended and restated effective January 1, 2009, is filed herewith.

- Exhibit 10.28* Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan, as amended and restated effective January 1, 2009, is filed herewith.

- Exhibit 12 Computation of Ratio of Earning to Fixed Charges is filed herewith.

- Exhibit 14.1 Code of Ethics for Financial Officers is incorporated herein by reference to Exhibit 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006, File No. 001-11590.
- Exhibit 14.2 Business Code of Ethics and Conduct is filed herewith.
- Exhibit 21 Subsidiaries of the Registrant is filed herewith.
- Exhibit 23.1 Consent of Independent Registered Public Accounting Firm is filed herewith.
- Exhibit 23.2 Consent of Preceding Independent Registered Public Accounting Firm for the year 2006 is filed herewith.
- Exhibit 31.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 9, 2009, is filed herewith.
- Exhibit 31.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Exchange Act Rule 13a-14(a), dated March 9, 2009, is filed herewith.
- Exhibit 32.1 Certificate of Chief Executive Office of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 9, 2009, is filed herewith.
- Exhibit 32.2 Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350, dated March 9, 2009, is filed herewith.

* Management contract or compensatory plan or agreement.

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

By: /s/ JOHN R. SCHIMKAITIS
John R. Schimkaitis
President and Chief Executive Officer

Date: March 9, 2009

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

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

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

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

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

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

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

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

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

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

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

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

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Chesapeake Utilities Corporation

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

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

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

Chesapeake Utilities Corporation and Subsidiaries
Schedule II
Valuation and Qualifying Accounts

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

(1) Recoveries.

(2) Uncollectible accounts charged off.

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

Exhibit 3.2

CHESAPEAKE UTILITIES CORPORATION

AMENDED AND RESTATED BYLAWS

December 11, 2008

ARTICLE I

OFFICES

1.1 <u>Registered Office</u>. The address of the Corporation's registered office in the State of Delaware is 1013 Centre Road in the City of Wilmington, in the County of New Castle, Delaware 19805. The name of the Corporation's registered agent at such address is Corporation Service Company.

1.2 <u>Other Offices</u>. The Corporation may also have offices at such other places as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

STOCKHOLDERS' MEETINGS

2.1 <u>Location of Meetings</u>. Annual and special meetings of the stockholders shall be held at such place within or without the State of Delaware, as the Directors may, from time to time, fix. Whenever the Directors shall fail to fix such place, the meeting shall be held at the principal office of the Corporation in the State of Delaware.

2.2 <u>Annual Meeting</u>. The annual meeting of stockholders shall be held each year at such time and place, within or outside of the State of Delaware, as shall be designated by the Board of Directors and stated in the notice of the meeting. At the annual meeting the stockholders shall elect the Directors of the Corporation and may transact any other business that is properly brought before the meeting.

2.3 <u>Business at Annual Meetings; Advance Notice Provision</u>. (i) No business may be transacted at an annual meeting of stockholders, other than business that is of proper matter for stockholder action and as shall be have been properly brought before the meeting. To be properly brought before a meeting, business must be (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board, (b) otherwise properly brought before the meeting by or at the direction of the Board, or (c) otherwise properly brought before the meeting by a stockholder who complies with the notice procedures set forth in Section 2.3(ii) below as to any business submitted by a stockholder other than director nominations which shall be governed exclusively by Section 3.3 below. This Section 2.3 shall be the exclusive means for a stockholder to submit business other than director nominations before a meeting of the stockholders (other than proposals brought under Rule 14a-8 of Regulation 14A of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and included in the Corporation's notice of meeting, which proposals are not governed by these Bylaws).

(ii) For any business (other than the nomination of directors) to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. This subsection (ii) shall constitute an “advance notice provision” for annual meetings for purposes of Rule 14a-4(c)(1) under the Exchange Act. To be timely, a stockholder’s notice must be received at the principal executive offices of the Corporation not earlier than the close of business on the 90th day and not later than the close of business on the 60th day prior to the first anniversary of the preceding year’s annual meeting; provided however, that in the event the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to the date of such annual meeting and not later than the close of business on the later of the 60th day prior to the date of such annual meeting or, if notice of the meeting is mailed or the first public announcement of the date of such annual meeting is made less than 75 days prior to the date of such annual meeting, the 15th day following the date on which such notice is mailed or such public announcement of the date of such meeting is first made by the Corporation, whichever occurs first. In no event shall any adjournment or postponement of an annual meeting, or the announcement thereof, commence a new time period for the giving of a stockholder’s notice as described above. A stockholder’s notice to the Secretary shall set forth the following information, and shall include a representation as to the accuracy of the information: (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address of the stockholder proposing such business, (c) the class and number of shares of the Corporation that are directly or indirectly, owned beneficially and/or of record by the stockholder, (d) any option, warrant, convertible, security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation or with a value derived in whole or in part from the value of any class or series of shares of the Corporation, whether or not the instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise (a “Derivative Instrument”) that is directly or indirectly owned beneficially by the stockholder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation, (e) any proxy, contract, arrangement, understanding, or relationship pursuant to which the stockholder has a right to vote or has granted a right to vote any shares of any security of the Corporation, (f) any short interest in any security of the Corporation (for purposes of these Bylaws a person shall be deemed to have a short interest in a security if the stockholder directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from any decrease in the value of the subject security), (g) any rights to dividends on the shares of the Corporation owned beneficially by the stockholder that are separated or separable from the underlying shares of the Corporation, (h) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership or limited liability company or similar entity in which the stockholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner, is the manager, managing member or directly or indirectly beneficially owns an interest in the manager or managing member of a limited liability company or similar entity, (i) any performance-related fees (other than an asset-based fee) that the stockholder is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, (j) any arrangement, rights or other interests described in subsections (c) through (i) held by members of such stockholder's immediate family sharing the same household, (k) any other information related to the stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitation of proxies for the proposal pursuant to Section 14 of the Exchange Act and the rules and regulations thereunder, (l) any material interest of the stockholder in such business (m) a description of any arrangements and understandings between such stockholder and any other person or persons in connection with the proposal of such business by such stockholder, and (n) any other information as reasonably requested by the Corporation. The information described in subsections (c) through (j) is hereinafter collectively referred to as the "Ownership and Rights Information."

(iii) Notwithstanding the foregoing or any other provisions of these Bylaws, including Section 3.3 below, a stockholder also shall comply with all applicable laws, regulations and requirements, including requirements of the Exchange Act and the rules and regulations thereunder, with respect to the matters set forth in these Bylaws; provided, however, that any references in these Bylaws to the Exchange Act or the rules and regulations thereunder are not intended to and shall not limit the requirements applicable to proposals or nominations as to any other business to be considered pursuant to this Section 2.3 or Section 3.3 below.

(iv) Nothing in these Bylaws shall be deemed to affect any rights of stockholders to request inclusion of proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act. Notice of stockholder proposals that are, or that the submitting stockholder intends to be, governed by Rule 14a-8 under the Exchange Act are not governed by these Bylaws.

2.4 Notice of Annual Meeting. Written notice of the annual meeting shall be served upon or mailed to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation, at least ten but not more than sixty days prior to the meeting. Such notice shall state the location, date and hour of the meeting, but the notice need not specify the business to be transacted thereat.

2.5 Special Meetings. Special meetings of the stockholders for any purpose or purposes, unless otherwise provided by law or by the Certificate of Incorporation, may be called by the President and shall be called by the President or Secretary at the request in writing of a majority of the Board of Directors, and not at the request of any other person or persons. Such request must state the purpose or purposes of the proposed meeting.

2.6 Notice of Special Meetings. Written notice of a special meeting shall be served upon or mailed to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation, at least ten but not more than sixty days prior to the meeting. Such notice shall state the location, date and hour of the meeting and shall describe the order of business to be addressed at the meeting. Business transacted at all special meetings shall be confined to the objects stated in the notice.

2.7 Presiding Officer at Stockholder Meetings. The Chair of the Board shall preside at all meetings of the stockholders, provided that the Chair may designate the President to preside in the Chair's stead. In the Chair's absence, the President shall preside, and in the absence of both, the Board shall appoint a person to preside.

2.8 Quorum; Adjournment. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business, except as otherwise provided by law, the Certificate of Incorporation or these Amended and Restated Bylaws (the "Bylaws"). If such quorum shall not be present or represented at any meeting of the stockholders, the presiding officer of the meeting or the majority of the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time until a quorum shall be present or represented. Even if a quorum is present or represented at any meeting of the stockholders, the presiding officer of the meeting, for good cause, or the majority of the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time. If the time and place of the adjourned meeting are announced at any meeting at which an adjournment is taken, no further notice of the adjourned meeting need be given; provided, however, that if the adjournment is for more than thirty days, or if after the adjournment a new record date for the adjourned meeting is fixed by the Board of Directors, notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting.

2.9 Vote Required. In all matters other than the election of Directors, the affirmative vote of the holders of a majority of the stock present in person or represented by proxy and entitled to vote on the matter shall decide any question brought before a meeting unless the question is one upon which by express provision of the Certificate of Incorporation or of these Bylaws, or by law, a different vote is required in which case such express provision shall govern and control the decision of such question. Directors shall be elected, by ballot, by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote at the election of directors.

2.10 Voting; Proxies. At any meeting of the stockholders every holder of shares entitled to vote thereat shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to said meeting, unless said instrument provides for a longer period. Each stockholder shall have one vote for each share of stock having voting power, registered in such stockholder's name on the books of the Corporation, and except where the transfer books of the Corporation shall have been closed or a date shall have been fixed as a record date for the determination of its stockholders entitled to vote, no share of stock shall be voted on at any election of Directors which shall have been transferred on the books of the Corporation within twenty days next preceding such election of Directors.

2.11 Stockholder Lists. At least ten days before every meeting of the stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order, with the residence of each and the number of voting shares held by each, shall be prepared by the Secretary. Such list shall be open for said ten days to examination by any stockholder for any purpose germane to the meeting during regular business hours at the place where the meeting is to be held, or at such other place within the city in which the meeting is to be held as shall be specified in the notice of the meeting, and also shall be produced and kept at the time and place of the meeting, during the whole time thereof, and may be inspected by any stockholder who is present.

2.12 Action Without Meeting. No action required to be taken or which may be taken at any annual or special meeting of stockholders may be taken without a meeting, and the power of stockholders to consent in writing to the taking of any action is specifically denied.

ARTICLE III

DIRECTORS

3.1 Powers. The property and business of the Corporation shall be managed by its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

3.2 Composition of the Board. The number of Directors which shall constitute the Board shall be fixed from time to time by resolution of a majority of directors in office; provided, that their number shall not be less than five nor more than fifteen. Directors shall be divided into three classes, as specified in the Certificate of Incorporation. Directors shall be elected at the annual meeting of the stockholders, and each Director shall be elected to serve until such Director’s successor shall be elected and shall qualify; provided, however, no person who shall have attained the age of 72 years by the date of election shall be eligible for election as a Director of the Corporation. Directors shall be stockholders. The Board of Directors, at its first meeting after each annual meeting of stockholders, shall elect the Chair of the Board who shall perform such duties as are specified in these Bylaws or are properly required of the Chair by the Board of Directors.

3.3 Nominations. Nominations for the election of Directors may be made by the Board or by any stockholder entitled to vote for the election of Directors. Nominations proposed by the Board shall be given by the Chair on behalf of the Board. Nominations by stockholders shall be in writing, and in the form prescribed below, and shall be effective when delivered by hand or received by registered first-class mail, postage prepaid, by the Secretary of the Corporation not less than 14 days nor more than 80 days prior to any meeting of the stockholders called for the election of Directors; provided, however, that if less than 21 days notice of the meeting is given to stockholders, such writing shall be received by the Secretary of the Corporation not later than the close of the seventh day following the day on which notice of the meeting was mailed to stockholders. Nominations by stockholders shall be in the form of a notice which shall set forth (a) as to each nominee (i) the name, age, business address and, if known, residence address of such nominee, (ii) the principal occupation or employment of such nominee, (iii) the Ownership and Rights Information as it relates to the nominee, (iv) the consent of the nominee to serve as a Director of the Corporation if so elected, (v) a description of all arrangements or understandings between the stockholder and the nominee, (vi) a description of all arrangements or understandings between the stockholder and any other person or persons pursuant to which the nomination is to be made by the stockholder, and (vii) any other information relating to the nominee required to be disclosed in solicitations of proxies for election of Directors, or otherwise required pursuant to Regulation 14A under the Exchange Act, and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such stockholder, (ii) the Ownership and Rights Information, and (iii) and any other information as reasonably requested by the Corporation. Such stockholder notice shall include a representation as to the accuracy of the information set forth in the notice. In addition, each nominee must complete and sign a questionnaire, in a form provided by the Corporation, to be submitted with the stockholder's notice, that inquires as to, among other things, the nominee's independence and director eligibility.

Only those persons who are nominated in accordance with the procedures set forth in these Bylaws shall be eligible to serve as directors. The presiding officer of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if the presiding officer should so determine, the presiding officer shall so declare to the meeting and the defective nomination shall be disregarded. This Section 3.3 shall be the exclusive means for a stockholder to submit business constituting director nominations before a meeting of the stockholders (other than proposals brought under Rule 14a-8 of Regulation 14A of the Exchange Act, which proposals are not governed by these Bylaws).

3.4 Vacancy. If the office of any Director becomes vacant by reason of death, resignation, retirement, disqualification, removal from office, or otherwise, a majority of the remaining Directors, though less than a quorum, shall choose a successor, who shall hold office until the next election of the class for which such Director shall have been chosen, and until such Director's successor shall be elected and qualified.

3.5 Resignation. Any Director of the Corporation may resign from the Board of Directors at any time by giving written notice to the President or to the Secretary of the Corporation. The resignation shall be effective at the time stated therein, and unless otherwise specified, the acceptance of such resignation shall not be necessary to make it effective.

3.6 **Meetings Generally**. The Board of Directors may hold meetings, both regular and special, at such times and places either within or without the State of Delaware as shall from time to time be determined by the Board.

3.7 **Regular Meetings**. Regular meetings of the Board of Directors shall be held at such times and places as shall be fixed by resolution of the Board. No notice shall be required for regular meetings held pursuant to such resolution, except that the Secretary of the Corporation shall promptly provide a copy of such resolution to any Director who is absent when such resolution is adopted. In case any scheduled meeting of the Board is not held on the day fixed therefore, the Directors shall cause the meeting to be held as soon thereafter as is convenient. At such regular meetings directors may transact such business as may be brought before the meeting.

3.8 **Special Meetings**. Special meetings of the Board may be called by the Chair of the Board or by the President by twenty-four (24) hours notice to each Director, either personally, by telephone, by mail, or by telegram; special meetings shall be called by the Chair of the Board, the President or the Secretary in like manner and on like notice on the written request of two Directors.

3.9 **First Meeting**. The first meeting of each newly elected Board shall be held immediately after the annual meeting of stockholders and at the same place, and no notice of such meeting to the newly elected Directors shall be necessary in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held, the Directors shall cause the meeting to be held as soon thereafter as is convenient.

3.10 **Organization**. The Chair of the Board shall preside at all meetings of the Board, provided that the Chair may designate the President to preside in the Chair's stead. In the Chair's absence the President shall preside, and in the absence of both, the Board shall appoint a person to preside. The Secretary of the Corporation, or if the Secretary is not present, one of the Assistant Secretaries, in the order determined by the Board, or if an Assistant Secretary is not present, a person designated by the Board, shall take the minutes of the meeting.

3.11 **Quorum; Adjournment**. At all meetings of the Board a majority of the number of directors fixed by the Board shall be necessary and sufficient to constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by law or by the Certificate of Incorporation or these Bylaws. Whether or not a quorum is present at any meeting of the Board, a majority of the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting.

3.12 Participation by Telephone. Any one or more Directors may participate in a meeting of the Board or any committee thereof by conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other at the same time. Participation in a meeting by such means shall be deemed attendance in person at that meeting.

3.13 Action Without Meeting. Any action required to be taken or which may be taken at any meeting of the Board or any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing, and such writing or writings are filed with the records of the meetings of the Board or of the committee, as the case may be. Any action taken pursuant to such consent shall be treated for all purposes as the act of the Board or committee.

3.14 Appointment of Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more special or standing committees, each committee to consist of two or more of the Directors of the Corporation. The Board of Directors may designate one or more Directors as alternate members of any committee to replace any absent or disqualified member at any meeting of the committee.

3.15 Meetings of Committees. Regular and special meetings of any committee established pursuant to this Article may be called and held subject to the same requirements with respect to time, place and notice as are specified in these Bylaws for regular and special meetings of the Board of Directors. At all committee meetings, a majority of the members of the committee shall be necessary to constitute a quorum for the transaction of any business, and the act of a majority of committee members present at a meeting at which there is a quorum shall be the act of the committee.

3.16 Powers of Committees. Committees of the Board of Directors, to the extent provided in the Board resolution or permitted by law, shall have and may exercise the powers of the Board of Directors, in the management of the business and affairs of the Corporation, and may have power to authorize the Seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name or names as may be determined from time to time by resolution of the Board. Except as the Board of Directors may otherwise determine, a committee may make rules for its conduct, but unless otherwise provided by the Board or such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these Bylaws for the conduct of business by the Board of Directors. Each committee shall keep regular minutes of its proceedings and report the same to the Board of Directors when required.

3.17 Compensation of Directors. Directors shall be reimbursed for reasonable expenses, if any, of attendance at each meeting of the Board of Directors and may be paid other compensation in whatever form and amount the Board of Directors, by resolution, shall determine to be reasonable. Members of special or standing committees may be allowed like compensation and reimbursement for participation in committee meetings. Nothing contained in this section shall be construed to preclude any Director from serving the Corporation in any other capacity, as officer, agent, employee or otherwise, and being compensated for such service.

ARTICLE IV

NOTICES

4.1 Generally. Whenever under the provisions of the Certificate of Incorporation or these Bylaws, or by law, notice is required to be given to any Director or stockholder, it shall not be construed to require personal notice, but such notice may be given in writing, by mail or by courier service, by depositing the same in a post office or letter box, or with a courier service, in a post-paid sealed wrapper, addressed to such Director or stockholder at such address as appears on the books of the Corporation, or, in default of other address, to such Director or stockholder at the last known address of such person, and notice shall be deemed to be given at the time when the same shall be thus deposited.

4.2 Waiver of Notice. Whenever any notice is required to be given under the provisions of the Certificate of Incorporation or these Bylaws, or by law, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when such person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully convened.

ARTICLE V

OFFICERS

5.1 Officers. The Officers of the Corporation shall be chosen by the Board of Directors and shall be a President, a Vice President, a Secretary, and a Treasurer, and, if the Board has designated the Chair as the Chief Executive Officer of the Corporation pursuant to Section 3.2 of these Bylaws, the Chair. The Board of Directors may also choose additional Vice Presidents, and one or more Assistant Secretaries and Assistant Treasurers, and may appoint such other Officers and agents as it shall deem necessary. Two or more offices may be held by the same person, except that where the officer designated as the Chief Executive Officer and the Secretary are the same person, such person shall not hold any other office.

5.2 Election; Term of Office; Removal. The Board of Directors at its first meeting after each annual meeting of stockholders shall elect the President, one or more Vice Presidents, the Secretary, the Treasurer, and such other Officers as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board. The Officers of the Corporation shall hold office until their successors are chosen and qualify in their stead, or until such time as they may resign or be removed from office. Any Officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the whole Board of Directors. If the office of any Officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors. In the case of any office other than that of the Chair, President, Secretary or Treasurer, the officer designated as the Chief Executive Officer may appoint a person to serve in such office, on a temporary basis, until the vacancy is filled by the Board.

5.3 Compensation. The salaries of all Officers and agents of the Corporation shall be fixed by or in the manner prescribed by the Board of Directors.

5.4 The Chair, the President and the Chief Executive Officer. The Chair shall be the Chief Executive Officer of the Corporation if, and only if, the Chair has been so designated pursuant to Section 3.2 of these Bylaws. If the Chair has not been so designated, the President shall hereby be designated as the Chief Executive Officer. The Chief Executive Officer shall report directly to the Board of Directors, and shall perform such duties as are incident to the office of the Chief Executive Officer or are properly specified and authorized by the Board of Directors. If the Chair has been designated as the Chief Executive Officer, the President shall be the Chief Operating Officer. In such case, the President shall report to the Chief Executive Officer and shall perform such duties as are incident to the office of the Chief Operating Officer or are properly specified and authorized by the Board of Directors; in the absence or disability of the Chair, the President shall perform the duties and exercise the powers of the Chief Executive Officer.

5.5 Vice Presidents. The Vice Presidents, in the order fixed by the Board of Directors, shall, in the absence or disability of the President, perform the duties and exercise the powers of the President, and shall perform such other duties as the Board of Directors shall prescribe.

5.6 The Secretary. The Secretary shall attend all meetings of the Board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or the President, under whose supervision the Secretary shall be. The Secretary shall keep in safe custody the Seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it and, when so affixed, it shall be attested by the Secretary's signature or by the signature of the Treasurer or an Assistant Secretary.

5.7 Assistant Secretaries. The Assistant Secretaries, in the order fixed by the Board of Directors, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties as the Board of Directors shall prescribe.

5.8 <u>The Treasurer</u>. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuables in the name and to the credit of the Corporation in such depositories or other institutions as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation by check or by electronic or wire transfer, as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and Directors, at the regular meetings of the Board, or whenever they may require it, an account of all transactions as Treasurer and of the financial condition of the Corporation.

5.9 <u>Assistant Treasurers</u>. The Assistant Treasurers, in the order fixed by the Board of Directors, shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as the Board of Directors shall prescribe.

ARTICLE VI

STOCK CERTIFICATES, TRANSFERS AND RECORD DATE

6.1 <u>Certificates of Stock; Uncertificated Shares</u>. Shares of capital stock of the Corporation may be certificated or uncertificated, as provided under the Delaware General Corporation Law. The certificates of stock of the Corporation shall be numbered and registered in the stock ledger and transfer books of the Corporation as they are issued. The stock certificates of the Corporation shall be signed by the Chief Executive Officer, the President or a Vice President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary, and shall bear the corporate seal, which may be a facsimile, engraved or printed. Any or all of the signatures on the certificate may be facsimiles, engraved or printed. In the event that any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon any share certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if such person were such officer, transfer agent, or registrar at the date of issue. Stock certificates of the Corporation shall be in such form as provided by statute and approved by the Board of Directors. The stock record books and the blank stock certificates books shall be kept by the Secretary or by any agency designated by the Board of Directors for that purpose.

6.2 <u>Registration of Transfer</u>. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares, if such shares are certificated, duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate or to register the issuance of uncertificated shares to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon the receipt of proper transfer instructions from the registered owner of uncertificated shares, such uncertificated shares shall be cancelled, issuance of new equivalent uncertificated shares or certificated shares shall be recorded upon the books of the Corporation. The Board of Directors shall have authority to make such rules and regulations not inconsistent with law, the Certificate of Incorporation or these Bylaws, as it deems expedient concerning the issuance, transfer and registration of certificates for shares and the shares represented thereby and of uncertificated shares.

6.3 **Record Date for Stockholders**. For the purpose of determining the stockholders entitled to notice of or to vote at any annual or special meeting of stockholders or any adjournment thereof, or for the purpose of determining stockholders entitled to receive payment of any dividend or other distribution or the allotment of any rights, or entitled to exercise any rights in respect of any change, conversion, or exchange of stock, or for the purpose of any other lawful action, the Directors may fix, in advance, a date as the record date for any such determination of stockholders. Such date shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. If no record date is fixed, the record date for the determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. When a determination of stockholders of record entitled to notice of or to vote at any meeting of stockholders has been made as provided in this paragraph, such determination shall apply to any adjournment thereof; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

6.4 **Registered Stockholders**. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

6.5 **Lost Certificates**. The Board of Directors may direct that (i) a new certificate or certificates or (ii) uncertificated shares in place of any certificate or certificates previously issued by the Corporation, be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of such (i) new certificate or certificates or (ii) uncertificated shares, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or the owner’s legal representative, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

ARTICLE VII

DIVIDENDS

7.1 **Power to Declare Dividends**. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

7.2 **Discretion of the Board**. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it was created.

ARTICLE VIII

MISCELLANEOUS PROVISIONS

8.1 **Instruments**. All checks, demands for money, notes, deeds, mortgages, bonds, contracts and other instruments of the Corporation shall be signed by such Officer or Officers or such other person or persons as the Board of Directors may from time to time designate.

8.2 **Borrowing**. No officer, agent or employee of the Corporation shall have any power or authority to borrow money on behalf of the Corporation, to pledge the Corporation's credit, or to mortgage or pledge the Corporation's real or personal property, except within the scope and to the extent such authority has been delegated to such person by resolution of the Board of Directors. Such authority may be given by the Board and may be general or limited to specific instances.

8.3 **Voting Securities of Other Corporations**. Subject to any specific direction from the Board of Directors, the officer designated as the Chief Executive Officer of the Corporation, or any other person or persons who may from time to time be designated by the Board of Directors, shall have the authority to vote on behalf of the Corporation the securities of any other corporation which are owned or held by the Corporation and may attend meetings of stockholders or execute and deliver proxies or written consents for such purpose.

8.4 **Fiscal Year**. The fiscal year shall begin the first day of January in each year.

8.5 **Seal**. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words “Corporate Seal, Delaware.” Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

8.6 **Books and Records of the Corporation**. The books and records of the Corporation shall be kept at such places as the Board may from time to time determine.

ARTICLE IX

INDEMNIFICATION OF DIRECTORS AND OFFICERS

9.1 **Right To Indemnification**. Each person who was or is made a party or is threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact such person is or was a Director or Officer of the Corporation or is or was serving at the request of the Corporation as a Director or Officer of another corporation or of a partnership, joint venture, trust or other enterprise, shall be indemnified and held harmless by the Corporation to the fullest extent permitted by the Delaware General Corporation Law against all expense, liability and loss (including attorneys’ fees, judgments, fines or penalties and amounts paid in settlement) reasonably incurred or suffered by such person in connection therewith, and such indemnification shall continue as to such person who has ceased to be a Director or Officer and shall inure to the benefit of the person’s heirs, executors and administrators. For purposes of this section, persons serving as Director or Officer of the Corporation’s direct or indirect wholly-owned subsidiaries shall be deemed to be serving at the Corporation’s request.

9.2 **Right To Advancement Of Expenses**. The right to indemnification conferred in Paragraph (a) of this section shall include the right to be paid by the Corporation the expenses incurred in defending any action, suit, or proceeding in advance of its final disposition, subject to the receipt by the Corporation of an undertaking by or on behalf of such person to repay all amounts so advanced if it shall ultimately be determined that such person is not entitled to be indemnified.

9.3 **Nonexclusivity of Rights**. The rights to indemnification and to the advancement of expenses contained in this section shall not be exclusive of any other right which any person may have or hereafter acquire under any law, provision of the Corporation’s Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested Directors or otherwise.

9.4 **Employee Benefit Plans**. For purposes of this section, references to “other enterprises” shall include employee benefit plans; references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a Director or Officer of the Corporation which imposes duties on, or involves services by, such Director or Officer with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation.”

ARTICLE X

AMENDMENTS

10.1 **Amendment of Bylaws**. These Bylaws may be altered or repealed at any regular meeting of the stockholders or at any special meeting of the stockholders, provided notice of the proposed alteration or repeal be contained in the notice of such special meeting, by the affirmative vote of the holders of 75% or more of outstanding shares of capital stock entitled to vote at such meeting and present or represented thereat. The Board of Directors may alter or repeal the Bylaws by the affirmative vote of a majority of the entire Board at any regular meeting of the Board or at any special meeting of the Board if notice of the proposed alteration or repeal be contained in the notice of such special meeting.

Exhibit 10.5

CHESAPEAKE UTILITIES CORPORATION

DEFERRED COMPENSATION PLAN

Amended and Restated as of January 1, 2009

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SECTION 1. ESTABLISHMENT AND PURPOSE

1.01. Establishment.

Effective September 1, 1998, the Company established for the benefit of certain Eligible Employees an unfunded plan of deferred compensation known as the “Chesapeake Utilities Corporation Executive Deferral Program,” as the same has been amended from time to time. Effective January 1, 2007, the Company amended and restated the Plan to provide members of the Company’s Board of Directors deferral opportunities and renamed the Plan the “Chesapeake Utilities Corporation Deferred Compensation Program”. Effective January 1, 2009, the Company hereby amends and restates the Plan to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, (the “Code”) and renames the Plan the “Chesapeake Utilities Corporation Deferred Compensation Plan”.

1.02. Purpose.

The Plan is an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management and highly compensated employees, as well as members of the Company’s Board of Directors. The Plan permits Eligible Employees and Directors to defer payment of part or all of certain specified types of compensation until their Separation from Service with the Company and its Affiliates or until such other date specified in accordance with the terms of the Plan.

1.03. Effective Date.

The Plan, as hereby amended and restated, is intended to meet the requirements of Code Section 409A, and is effective with respect to amounts that were not deferred and vested (within the meaning of Code Section 409A) before January 1, 2005, and any earnings on such amounts. Except as otherwise specifically provided herein, amounts deferred and vested (within the meaning of Code Section 409A) before January 1, 2005 (and earnings on such amounts) remain subject to the terms of the September 1, 1998 Plan restatement, which are set forth in Appendix A. For recordkeeping purposes, the Company established separate accounts for each Participant for amounts deferred and vested before January 1, 2005, and amounts deferred and vested on or after that date.

To the extent inconsistent with Code Section 409A or regulations issued thereunder, this Plan shall be amended to conform to such requirements within applicable time limitations established by the Internal Revenue Service.

SECTION 2. DEFINITIONS AND CONSTRUCTION

2.01. Definitions.

The following words and phrases as used in the Plan have the following meanings:

(a) **"Account"** means the bookkeeping account established for each Participant under Section 4. Each Account shall include a Deferred Cash Subaccount and a Deferred Stock Unit Subaccount. Additional subaccounts shall be maintained as necessary for the administration of the Plan.

(b) **"Affiliate"** means any corporation included with Chesapeake Utilities Corporation in a "controlled group of corporations," as defined in Code Section 414(b), or an unincorporated business included with Chesapeake Utilities Corporation in a group of trades or business under "common control," as defined by regulations prescribed by the Secretary of the Treasury under Code Section 414(c).

(c) **"Beneficiary"** means the person or persons (including a contingent beneficiary except where the context indicates otherwise) designated by a Participant pursuant to Section 9.02 to receive death benefits under the Plan.

(d) **"Board"** means the Board of Directors of the Company.

(e) **"Bonus Compensation"** means compensation received under the Bonus Plan or other compensation designated by the Committee as Bonus Compensation eligible for deferral under the Plan as Performance Based Compensation.

(f) **"Bonus Plan"** means the "Chesapeake Utilities Corporation Cash Bonus Incentive Plan," as in effect and amended from time to time.

(g) **"Change in Control"** means the first of the following events to occur:

(1) Any one person, or group of owners of another corporation who acting together through a merger, consolidation, purchase, acquisition of stock or the like (a "group"), acquires ownership of stock of the Company (or a majority-controlled subsidiary of the Company) that, together with the stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if such person or group is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the corporation before this transfer of the Company's stock, the acquisition of additional stock by the same person or persons shall not be considered to cause a Change in Control of the Company; or

(2) Any one person or group (as described in Section 2.01(g)(1), above) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company (or a majority-owned subsidiary of the Company) possessing 35 percent or more of the total voting power of the stock of the Company where such person or group is not merely acquiring additional control of the Company; or

(3) A majority of members of the Company's Board (other than the Board of a majority-controlled subsidiary of the Company) is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board prior to the date of the appointment or election; or

(4) Any one person or group (as described in 2.01(g)(1), above) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets from the Company (or a majority-controlled subsidiary of the Company) that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by the Company will not result in a Change in Control under this Section 2.01(g)(4), if the assets are transferred to:

(A) a shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(B) an entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company immediately after the transfer of assets;

(C) a person, or more than one person acting as a group (as described in 2.01(g)(1), above), that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or

(D) an entity, at least 50 percent of the total value or voting power of which is owned directly or indirectly, by a person described in Section 2.01(g)(4)(C), above.

However, no Change in Control shall be deemed to have occurred with respect to a Participant by reason of (i) any event involving a transaction in which 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 or 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.

The term "Change in Control" is intended to comply with Code Section 409A and shall be interpreted such that a Change in Control (1) shall occur for purposes of the Plan in any circumstance that would constitute a "Change in Control Event" (within the meaning of Treasury Regulations under Code Section 409A) and (2) shall not occur for purposes of the Plan in any circumstance that would not constitute such a Change in Control Event.

(h) **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

(i) **"Committee"** means the Employee Benefits Committee of the Company or such other committee as may be appointed by the Board to administer the Plan.

(j) **"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.

(k) **"Company"** means Chesapeake Utilities Corporation, a Delaware corporation, and any Affiliate that may be authorized by the Compensation Committee and by its own board of directors to participate in the Plan with respect to its employees.

(l) **"Compensation Committee"** means the Compensation Committee of the Board.

(m) **"Deferred Cash Subaccount"** means the bookkeeping account to which Deferred Cash Payments of a Participant and interest are credited pursuant to Section 4.

(n) **"Deferred Cash Payment"** means any Director Compensation, otherwise payable in cash, or Bonus Compensation that a Participant elects to defer under the Plan.

(o) **"Deferred Stock Units"** or **"DSUs"** means hypothetical shares of Common Stock (including hypothetical fractional shares).

(p) **"Director"** means a member of the Board of Directors of the Company.

(q) **"Director Compensation"** means amounts paid or payable by the Company to a Director for a Plan Year which are includable in income for federal tax purposes, including Director's fees of all types, whether paid in cash or Common Stock. Notwithstanding the foregoing, non-cash compensation and expense reimbursements are excluded from Director Compensation.

(r) **"Disabled"** means a medically determinable physical or mental impairment that can be expected to result in death or last for at least 12 months; and the impairment either (1) prevents the Participant from engaging in any substantial gainful activity, or (2) entitles the Participant to receive income replacement benefits for at least 3 months under an accident or health plan sponsored by the Company. The Company shall determine whether a Participant is Disabled in its sole discretion (but in compliance with Code Section 409A) and may require the Participant to submit to periodic medical examinations at the Participant's expense to confirm the existence and continuation of the Participant's disability.

(s) **"DSU Subaccount"** means the bookkeeping account to which DSUs of a Participant and dividend equivalents are credited pursuant to Section 4.

(t) **"Eligible Employee"** means an employee of the Company who is designated by the Compensation Committee, in its sole discretion, to be eligible to participate in the Plan.

(u) **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

(v) **"Excessive Benefits"** means an amount credited to a Participant's Account or paid on a Participant's behalf in excess of the amount that properly should have been credited to the Participant's Account or paid on the Participant's behalf.

(w) **"Fair Market Value"** means the average of the high and low sales price of the Common Stock, as reported on the New York Stock Exchange (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.

(x) **"Participant"** means an Eligible Employee or Director who becomes a participant in the Plan in accordance with Section 3.01 and whose Account has a positive balance.

(y) **"Performance Based Compensation"** means a bonus or other payment of compensation for which the amount of the payment or the entitlement thereto is contingent on the satisfaction of organizational or individual performance criteria relating to a performance period of at least 12 consecutive months. The organizational or individual performance criteria shall be established in writing no later than 90 days after the beginning of the period of service to which the criteria relate, and the outcome must be substantially uncertain at the time the criteria are established. Notwithstanding the above, a performance-based bonus may be based on subjective performance criteria, provided that:

(1) the subjective performance criteria are bona fide and relate to the performance of the Participant, a group of service providers that includes the Participant, or a business unit for which the Participant provides services (which may include the entire organization); and

(2) the determination that any subjective performance criteria have been met is not to be made by the Participant or a family member of the Participant (as defined in Code Section 267(c)(4) applied as if the family of an individual includes the spouse of any member of the family), or a person under the effective control of the Participant or such a family member, and no amount of the compensation of the person making such determination is effectively controlled in whole or in part by the Participant or such a family member.

(z) **"Performance Share Award"** means a performance share award granted under the PIP which qualifies as Performance Based Compensation.

(aa) **"Performance Shares"** means shares of Common Stock awardable under a Performance Share Award in accordance with the terms of the PIP.

(bb) **"PIP"** means the "Chesapeake Utilities Corporation Performance Incentive Plan," as in effect and as amended from time to time.

(cc) **"Plan"** means the "Chesapeake Utilities Corporation Deferred Compensation Program," as set forth herein and as amended from time to time.

(dd) **"Plan Year"** means the calendar year.

(ee) **"Separation from Service"** occurs when an Eligible Employee separates from service with the Company if the Eligible Employee dies, retires or otherwise has a termination of employment with the Company. Whether a termination of employment has occurred is determined based on whether the facts and circumstances indicate that the Company and the Eligible Employee reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Eligible Employee would perform after such date (as an employee or independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or the full period in which the Eligible Employee provided services to the Company if the Eligible Employee has been providing services for less than 36 months). An Eligible Employee will not be deemed to have experienced a Separation from Service if such Eligible Employee is on military leave, sick leave, or other bona fide leave of absence, to the extent such leave does not exceed a period of six months or, if longer, such longer period of time during which a right to re-employment is protected by either statute or contract. If the period of leave exceeds six months and the individual does not retain a right to re-employment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period. In the case of a Director, a separation from service occurs upon the termination of the Director's service on the Board, provided, however, that a Director who is also providing services to the Company as an independent contractor, does not have a Separation from Service until he has separated from service both as a Director and as an independent contractor. If an Eligible Employee provides services both as an employee and as a member of the Board, the services provided as a Director are generally not taken into account in determining whether the Eligible Employee has a Separation from Service as an employee for purposes of the Plan, in accordance with final regulations under Code Section 409A.

(ff) **"Valuation Date"** means the last business day of each calendar month.

2.02. Construction.

For purposes of the Plan, unless the contrary is clearly indicated by the context,

(a) the use of the masculine gender shall also include within its meaning the feminine and vice versa,

(b) the use of the singular shall also include within its meaning the plural and vice versa, and

(c) the word “include” shall mean to include without limitation.

SECTION 3. PARTICIPATION

3.01. Election of Benefits.

An Eligible Employee or Director shall become a Participant in the Plan by electing to participate in the Plan in accordance with Section 3.02 and procedures established by the Committee.

3.02. Election Requirements.

(a) Election Filing Deadline. Except as provided in subsection (b), below, an election to defer an amount equal to all or part of an Eligible Employee's Bonus Compensation earned with respect to, or Performance Shares awarded during, a Plan Year shall be filed by the Eligible Employee with the Committee at least six months before the Plan Year ends (*i.e.*, by June 30th), unless the Bonus Compensation or Performance Shares do not qualify as Performance-Based Compensation, in which case an election with respect to such compensation shall be filed by the Eligible Employee with the Committee before the beginning of the Plan Year for which the compensation will be earned, or at such other time that complies with the deferral election requirements of Code Section 409A. Except as provided in subsection (b) below, a Director shall file an election with the Committee to defer an amount equal to all or part of his Director Compensation before the beginning of the Plan Year for which the Director Compensation will be earned. In all cases, a Participant's election to defer Bonus Compensation, Director Compensation or Performance Shares, as applicable, shall be made in accordance with the deferral election timing requirements of Code Section 409A and procedures established by the Committee from time to time.

(b) Initial Election. A newly hired or otherwise newly Eligible Employee may file the requisite election to defer Bonus Compensation or Performance Shares earned thereafter before the expiration of 30 days either from, as applicable, (1) his initial date of employment (if the Eligible Employee is a new hire) or (2) his initial date of eligibility (if the Eligible Employee is newly eligible to participate in the Plan). A newly eligible Director may file the requisite election to defer Director Compensation earned thereafter before the expiration of 30 days from the Director's initial date of eligibility to participate in the Plan. Initial elections shall apply only to compensation (of whatever kind) to be earned after the date of the timely initial election.

(c) Irrevocable Election. Except as provided in Sections 5.03, 5.04, 5.05 and 5.06, a deferral election described in this Section 3.02, once filed, shall be irrevocable and shall remain in effect until the end of the Plan Year to which it pertains. Six months before the end of each subsequent Plan Year (or prior to the beginning of each subsequent Plan Year if the Bonus Compensation or Performance Shares do not qualify as Performance-Based Compensation), the Participant shall file a new election with the Committee in accordance with the preceding provisions of this Section 3.02. The new election shall apply only to deferrals for that Plan Year. An Eligible Employee or Director who does not make a deferral election in one Plan Year may make a deferral election for any subsequent Plan Year, provided he remains an Eligible Employee or Director, by making a deferral election in accordance with this Section 3.02.

(d) Form and Content of Election. An election to make a deferral hereunder shall be in writing, in a form acceptable to the Committee, and shall specify such information as required by the Committee. A deferral election may designate any whole percentage (from 1% to 100%) of the Bonus Compensation or Performance Shares awarded to an Eligible Employee, or Director Compensation awarded to a Director, to be deferred for a calendar year.

(e) Treatment of Performance Shares and Common Stock. A Participant who elects to defer Performance Shares or other compensation payable in the form of Common Stock shall be credited with DSUs rather than with shares of Common Stock. Such DSUs shall equal the number of shares of Common Stock that the Participant otherwise would be entitled to receive as compensation or under the Performance Share Award (irrespective of any taxes that would have otherwise been withheld on such compensation or Performance Share Award).

3.03. Form and Time of Payment.

(a) General. Except as provided in Sections 5.03, 5.04, 5.05, and 5.06, an amount deferred under this Section 3 shall be paid in a lump sum as of the Valuation Date coincident with or next following the date elected by the Participant. A Participant may elect a different form or time of payment for his deferrals for each Plan Year, but may not divide his deferrals for a single Plan Year among different forms or times of payment. If, however, a Participant who is an Eligible Employee elects to receive payment upon Separation from Service, no amount shall be distributed earlier than six months after the Valuation Date coincident with or next following the Participant’s Separation from Service. Such six month delay shall not apply to a distribution made to a Participant who is a Director. A Participant may elect to receive his distribution as of the earlier or later of two dates (including Separation from Service), to the extent permitted by Code Section 409A.

(b) Modification of Time and Form. After making his first election, a Participant may file an election with the Committee, in a form satisfactory to the Committee, to modify the payment date with respect to a deferral election or to irrevocably specify that the amount credited to his Account is to be paid in the form of five or ten annual installments; provided, however, that, to the extent required by Code Section 409A, such election:

(1) is filed with the Committee at least twelve months prior to the date of the first scheduled payment;

(2) is not effective until at least twelve months after the date on which the election is made;

(3) defers the lump sum payment or the first installment payment with respect to which such election is made for a period of not less than five years from the date such payment would otherwise have been made;

(4) does not accelerate payment of the deferred amount; and

(5) does not request other than five or ten annual installments.

For purposes of the Plan, an election to receive benefits as five or ten annual installments shall be treated as the entitlement to a single payment as further described in Treas. Reg. Section 1.409A-2(b)(iii).

3.04. Termination of Participation.

Once an Eligible Employee or Director becomes a Participant, such individual shall continue to be a Participant until such individual (a) ceases to be described as an Eligible Employee or Director, as applicable, and (b) ceases to have any vested interest in the Plan (as a result of distributions made to such Participant or his Beneficiary, if applicable, or otherwise).

SECTION 4. ACCOUNTS

4.01. Accounts.

The Company shall maintain for bookkeeping purposes an Account in the name of each Participant. Each Account shall have a Deferred Cash Subaccount and a DSU Subaccount, as applicable, to which shall be credited amounts deferred under Section 3.

4.02. Deferred Cash Subaccount.

The Company shall maintain a Deferred Cash Subaccount in the name of each Participant. During each Plan Year, each Deferred Cash Subaccount shall be credited with the Participant’s Bonus Compensation or Director Compensation, otherwise payable in cash, as applicable, deferred under Section 3.

4.03. DSU Subaccount.

The Company shall maintain a DSU Subaccount in the name of each Participant. During each Plan Year, each DSU Subaccount shall be credited with the Participant’s Performance Shares or Common Stock, as applicable, deferred under Section 3.

4.04. Investment Return for Deferred Cash Subaccount.

(a) Rate of Return Indices. The Compensation Committee shall select and maintain one or more rate of return indices as specified on Exhibit A attached hereto as amended from time to time. A Deferred Cash Payment shall be allocated among one or more of the rate of return indices and shall be credited with the applicable investment return (or loss) that such Deferred Cash Payment would have achieved if it were invested in the specified index or indices. Allocations to one or more of the rate of return indices may be modified during the Plan Year to the extent permitted by the Committee, in its sole discretion. Amounts in the Deferred Cash Subaccount that were deferred and vested as of January 1, 2005, may be allocated among one or more of the rate of return indices on Exhibit A attached hereto to the extent the Committee so provides and to the extent such provision is not a material modification (within the meaning of Code Section 409A and Treasury Regulations issued thereunder) to the terms of the September 1, 1998 Plan restatement, which are set forth in Appendix A.

(b) Election of Rate of Return Indices.

(1) Each Participant shall specify in writing, at the time he completes his election to participate under Section 3, and in a form acceptable to the Committee, how any Deferred Cash Payment shall be allocated among the indices specified on Exhibit A attached hereto.

(2) The Committee may, in its discretion and from time to time, permit a Participant to change any election previously made with respect to the allocation of any Deferred Cash Payment, subject to such conditions and such limitations as the Committee may prescribe. Any such change in election shall be in writing and in a form acceptable to the Committee.

(3) The Committee may, in its discretion and from time to time, permit a Participant to elect to reallocate the amounts in such Participant's Deferred Cash Subaccount from one rate of return index to another, subject to such conditions and such limitations as the Committee may prescribe; provided that a Participant shall be permitted, at least once per calendar month, to reallocate amounts previously allocated. Any such reallocation election shall be in writing and in a form acceptable to the Committee.

(4) The Committee may require that any election under this Section 4.04 apply to the entire amount to which it pertains (e.g., 100% of the Participant's future contributions) or to such percentage or percentages of that amount as the Committee may specify (e.g., increments of 5%).

(5) If a Participant fails to specify a rate of return index with respect to his Deferred Cash Payments, the Participant shall be presumed to have specified that his entire Deferred Cash Subaccount be allocated to the index determined by the Committee to represent the lowest risk of principal loss.

(c) Crediting of Investment Return. The balance credited to the Participant's Deferred Cash Subaccount as of the last day of the prior month shall be credited with the applicable investment return (or loss) as of the last day of the month of crediting. All references herein to Deferred Cash Payments shall be deemed to include such Deferred Cash Payments plus any investment return (or loss) credited pursuant to this Section 4.04.

4.05. Treatment of DSUs.

(a) Deemed Reinvestment of Dividends on DSUs. The DSUs credited to a Participant's DSU Subaccount pursuant to Section 3.02 shall be increased on each date that a dividend is paid on Common Stock. The number of additional DSUs credited to a Participant's DSU Subaccount as a result of such increase shall be determined first by multiplying the number of DSUs credited to the Participant's DSU Subaccount on the dividend record date by the amount of the dividend declared per share of Common Stock on the dividend declaration date, and then by dividing the product so determined by the Fair Market Value of the Common Stock on the dividend payment date.

(b) Conversion Out of DSUs. Amounts credited to the DSU Subaccount generally will be paid in the corresponding number of shares of Common Stock. In the event, however, that it becomes necessary to determine the dollar value of DSUs credited to a Participant's DSU Subaccount as of any date, the dollar value shall be determined by multiplying the number of DSUs on that date by the Fair Market Value of the Common Stock on that date.

(c) Effect of Recapitalization. In the event of a transaction or event described in this Section 4.05(c), the number of DSUs credited to a Participant's DSU Subaccount shall be adjusted in such manner as the Committee, in its sole discretion, deems equitable. A transaction or event is described in this Section 4.05(c), if and only if:

(1) it is a dividend or other distribution (whether in the form of cash, shares, other securities, or other property), extraordinary cash distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities, the issuance of warrants or other rights to purchase shares or other securities, or other similar corporate transaction or event; and

(2) the Committee determines that such transaction or event affects the Common Stock such that an adjustment pursuant to this Section 4.05(c) is appropriate to prevent dilution or enlargement of the benefits made available under the Plan.

4.06. Vesting of Accounts.

(a) Deferred Cash Subaccount. A Participant shall at all times have a 100% vested and nonforfeitable interest in the balance in his Deferred Cash Subaccount.

(b) DSU Subaccount. Any Performance Share in a Participant's DSU Subaccount shall vest and become nonforfeitable only to the extent such Performance Share would have vested and become nonforfeitable under the terms of the PIP had it not been deferred. Any Common Stock in a Director's DSU Subaccount shall be 100% vested at all times.

(c) Dividend DSUs. A Participant shall have a vested and nonforfeitable interest in any dividend DSUs only to the extent the Participant has a vested and nonforfeitable interest in the underlying Performance Share or Common Stock to which the dividend DSU relates.

Notwithstanding the foregoing, a Participant's Account shall be subject to the claims of the Company's creditors as provided in Section 6.

SECTION 5. DISTRIBUTIONS

5.01. Exclusive Entitlement to Payment

A Participant's deferral election pursuant to Section 3 shall constitute a waiver of his right to receive the amount deferred and an agreement to receive in lieu thereof the amounts payable to him at the times and in the methods specified in this Section 5. No other amounts shall be due under the Plan or otherwise as a result of a Participant's deferral election under Section 3.

5.02. Payment.

(a) Time of Payment. Subject to Sections 5.03, 5.04, 5.05, and 5.06, the Participant shall receive an amount equal to the sum of the balances in his Account at the time(s) and in the manner specified or elected by him in accordance with Section 3.03. If the deferred amounts are subject to more than one distribution election made in accordance with Section 3.03, then the portion of the Participant's Account that is subject to each election shall be distributed in accordance with the applicable election. The Participant's Account shall be debited to reflect each distribution pursuant to this Section 5.

(b) Payment Medium. All amounts credited to the Deferred Cash Subaccount shall be paid in cash. All amounts credited to the DSU Subaccount shall be paid solely in shares of Common Stock, except that cash shall be paid in lieu of fractional shares. Any reference in the Plan to a payment of DSUs shall refer to a distribution of shares of Common Stock equal to the number of DSUs, except that it shall refer to a payment of cash in lieu of a fractional share. For this purpose, the cash value of a fractional share shall be determined in accordance with Section 4.05(b).

(c) Installment Payments. If the Participant receives installments, the amount of the first installment shall be equal to the value of the Participant's Deferred Cash Subaccount plus the value of the Participant's DSU Subaccount (determined in accordance with Section 4.05(b)) determined as of the Valuation Date as of which the installments commence (the "applicable Valuation Date") pursuant to Section 5.02(a), divided by five (if five installments are elected) or ten (if ten installments are elected). The amount of each succeeding installment shall be equal to the value of the Participant's Deferred Cash Subaccount and the value of the Participant's DSU Subaccount (determined in accordance with Section 4.05(b)) on the next succeeding anniversary of the applicable Valuation Date, divided by the remaining number of installments to be paid. The form of each installment payment shall be determined in accordance with Section 5.02(b).

(d) Effect of Deferral on Restriction or Vesting Period. If a share of Common Stock would have been subject to any restriction or vesting period upon transfer to a Participant under a Performance Share Award in the absence of a deferral election, such share shall be subject to such restriction or vesting period upon payment from the Plan; provided however, that any period of deferral under the Plan shall be credited toward the satisfaction of any such restriction or vesting period.

5.03. Death Benefits.

(a) Amount and Form of Death Benefit. Any amount credited to a Participant's Account that is unpaid at the time of the Participant's death shall be paid in a single lump sum to the Beneficiary (or the contingent Beneficiary if the Beneficiary predeceases the Participant) designated by the Participant pursuant to Section 9.02.

(b) Time of Payment. A distribution pursuant to this Section 5.03 shall be paid to the Participant's Beneficiary within 30 days after the Valuation Date that is coincident with or next follows the date of the Participant's death, together with any additional information or documentation that the Committee determines to be necessary or appropriate before it makes the distribution.

5.04. Distributions Due to Unforeseeable Emergency.

Notwithstanding Sections 3.02 and 3.03, upon the occurrence of an unforeseeable emergency, a Participant shall be eligible to receive payment of the amount necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant's assets (to the extent such liquidation would not itself cause severe financial hardship), or by cessation of deferrals under the Plan. The amount determined to be properly distributable under this Section and applicable regulations under Code Section 409A shall be payable in a single lump sum only. For the purposes of this Section, the term "unforeseeable emergency" means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant's spouse, or a dependent of the Participant (as defined in Code Section 152, without regard to Sections 152(b)(1), (b)(2) and (d)(1)(B)); loss of the Participant's property due to casualty, including the need to rebuild a home following damage not otherwise covered by insurance, for example, not as a result of a natural disaster; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, including imminent foreclosure of or eviction from the Participant's primary residence, the need to pay for medical expenses, including non-refundable deductibles, the cost of prescription drugs, and the need to pay for funeral expenses of a spouse, Beneficiary, or dependent. It shall be the responsibility of the Participant seeking to make a withdrawal under this Section to demonstrate to the Committee that an unforeseeable emergency has occurred and to document the amount properly distributable hereunder. After a distribution on account of an unforeseeable emergency, a Participant's deferral elections shall cease and such Participant will not be permitted to participate in the Plan or elect additional deferrals until the next enrollment following one full year from the date of the distribution on account of an unforeseeable emergency. Such future deferral elections following a distribution on account of an unforeseeable emergency will be treated as an initial deferral election and subject to the rules applicable thereto under the Plan and Code Section 409A.

5.05. Disability.

Notwithstanding any election made pursuant to Sections 3.02 and 3.03, upon the written application of the Participant in accordance with the requirements of Section 3, the Committee shall accelerate and pay in a lump sum to the Participant all of the balance of the Participant's Account, if the Committee finds that such person has become Disabled (within the meaning of Code Section 409A).

5.06. Change in Control.

Notwithstanding any election made pursuant to Sections 3.02 and 3.03, upon a Change in Control, the Participant shall receive amounts credited to his Account in the form of a lump sum payment. Such payment shall be made within 90 days after the date the Change in Control occurred.

5.07. Acceleration of Payment.

The acceleration of the time and/or form of any payment determined in accordance with the provisions of this Section 5 shall not be made except due to unforeseeable emergency, as described above, or as set forth below and otherwise permitted by Code Section 409A and the Treasury Regulations and other guidance issued thereunder:

(a) Domestic Relations Order. A payment of all or part of the Participant's Account may be made to a spouse, former spouse or other dependent under the terms of a domestic relations order (as defined in Code Section 414(p)(1)(B)). The Administrative Committee shall determine whether a payment should be made pursuant to the terms of a domestic relations order and the time and form of such payment.

(b) Employment Taxes. A payment of all or part of the Participant's Account may be made to the extent necessary to pay the Federal Insurance Contributions Act ("FICA") tax imposed under Code Sections 3101, 3121(a), and 3121(v)(2) on amounts deferred under the Plan (the "FICA Amount"), income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of the payment of the FICA Amount, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this Section shall not exceed the aggregate of the FICA Amount and the income tax withholding related to such FICA Amount.

(c) Payment of State, Local or Foreign Taxes. Payment may be made to reflect payment of state, local or foreign tax obligations arising from participation in the Plan that apply to an amount deferred under the Plan before the amount is paid or made available to the Participant, plus the income tax at source on wages imposed under Code Section 3401 as a result of such payment; provided, however, that the amount of the payment may not exceed the amount of the taxes due, and the income tax withholding related to such state, local and foreign tax amount.

(d) Income Inclusion under Code Section 409A. Payment may be made at any time the Plan fails to meet the requirements of Code Section 409A and the Treasury Regulations issued thereunder; provided, however, that payment cannot exceed the amount required to be included in income as a result of the failure to comply.

(e) Certain Offsets. Payment may be made as satisfaction of a debt of the Participant to the Company where: (1) the debt is incurred in the ordinary course of the employment relationship; (2) the entire amount of the offset in any of the Participant's taxable years does not exceed $5,000; and (3) the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.

5.08. Delay of Payment.

A Participant who is a "specified employee" (as defined in Code Section 409A and the regulations thereunder) and is entitled to a distribution due to a Separation from Service may not receive a distribution under the Plan until a date that is at least six months after the date of the Separation from Service. In addition, the Company may in its discretion delay any payment due under the Plan to the extent permitted by Code Section 409A and the regulations thereunder.

5.09. Assignment and Assumption of Liabilities.

In the discretion of the Company, upon the cessation of participation in the Plan by any Participant solely due to the employer of that Participant no longer qualifying as a member of the controlled group of Chesapeake Utilities Corporation within the meaning of Code Sections 414(b) and (c), all liabilities associated with the Account of such Participant may be transferred to and assumed by the Participant's employer under a deferred compensation plan established by such employer that is substantially identical to this Plan and that preserves the deferral and payment elections in effect for the Participant under this Plan to the extent required by Code Section 409A. Any such Participant shall not be deemed to have incurred a Separation from Service for purposes of the Plan by virtue of his employer's ceasing to be a member of the controlled group of Chesapeake Utilities Corporation The foregoing provision shall be interpreted and administered in compliance with the requirements of Code Section 409A.

SECTION 6. NATURE OF PARTICIPANT’S INTEREST IN PLAN

6.01. No Right to Assets.

Participation in this Plan shall not create, in favor of any Participant or Beneficiary, any interest in or lien against any of the assets of the Company. All payments hereunder shall be paid from the general funds of the Company, and no special or separate fund shall be established and no other segregation of assets shall be made to assure the payments of benefits hereunder; provided, however, that in order to provide a source of payment for its obligations under the Plan, the Company may establish a grantor trust commonly known as a “Rabbi” trust. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and a Participant or any other person, and the promise of the Company to pay benefits hereunder shall, at all times, remain unfunded as to the Participant or Beneficiary, whose rights hereunder shall be limited to those of a general and unsecured creditor of the Company.

6.02. No Right to Transfer Interest.

A Participant’s or Beneficiary’s rights to benefits payable under the Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance. However, the Committee may permit a Participant or Beneficiary to enter into a revocable arrangement to pay all or part of his benefits under the Plan to a revocable grantor trust (a so-called “living trust”). In addition, the Committee may recognize the right of an alternate payee named in a domestic relations order to receive all or part of a Participant’s benefits under the Plan, but only if (a) the domestic relations order would be a “qualified domestic relations order” (within the meaning of Code Section 414(p) (if Code Section 414(p) applied to the Plan)), (b) the domestic relations order does not attempt to give the alternate payee any right to any asset of the Company, (c) the domestic relations order does not attempt to give the alternate payee any right to receive payments under the Plan at a time or in an amount that the Participant could not receive under the Plan to the extent such a payment would violate Code Section 409A, and (d) the amount of the Participant’s benefits under the Plan are reduced to reflect any payments made or due the alternate payee.

6.03. No Right to Employment or Service.

No provisions of the Plan and no action taken by the Company, the Board, the Compensation Committee, or the Committee will give any person any right to be retained in the employ of the Company or as a member of the Board. The Company specifically reserves the right and power to dismiss or discharge any Eligible Employee.

6.04. Withholding and Tax Liabilities.

The amount of any withholdings required to be made by any government or government agency will be deducted from benefits paid under the Plan to the extent deemed necessary by the Committee. In addition, the Participant or Beneficiary (as the case may be) will bear the cost of any taxes not withheld on benefits provided under the Plan, regardless of whether withholding is required. The income tax consequences to Participants of compensation reductions under the Plan shall be determined under applicable federal, state and local tax laws and regulations and neither the Company, the Committee, the Board, nor any officer or employee of the Company makes any representations as to the tax consequences of participation in the Plan.

In accordance with Code Section 409A and the regulations issued thereunder, the Plan shall permit the withholding and payment of any amounts necessary to (a) satisfy federal and applicable state or city employment tax withholding obligations that arise under the Plan prior to the date that payment may otherwise be made under the Plan and/or (b) satisfy the excise tax or underpayment penalties owed under Code Section 409A in the event of a violation of Code Section 409A under the Plan.

SECTION 7. ADMINISTRATION

7.01. Committee.

The Plan shall be administered by the Committee that shall serve at the pleasure of the Board. The Committee may allocate its responsibilities for the administration of the Plan among its members or among any subcommittee(s) it may appoint and may designate persons other than its members to carry out its responsibilities under the Plan.

7.02. Meetings.

The Committee shall hold meetings upon such notice, at such place or places, and at such intervals as are required to carry out its functions.

7.03. Quorum.

A majority of the members of the Committee at any time in office shall constitute a quorum for the transaction of business. All resolutions or other actions taken by the Committee shall be by vote of a majority of members present at a meeting of the Committee; or without a meeting by an instrument in writing signed by all the members of the Committee at such time in office.

7.04. Expenses.

The expenses incident to the operation of the Plan, including the compensation of attorneys, advisors, actuaries, and such other persons providing technical and clerical assistance as may be required, shall be paid directly by the Company.

7.05. Responsibilities of the Committee.

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

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

(b) to interpret the Plan and to decide any and all matters arising hereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions; provided that all such interpretations and decisions shall be applied in a uniform and non-discriminatory manner to all persons similarly situated;

(c) to compute the amount of benefits that shall be payable to any Participant or Beneficiary in accordance with the provisions of the Plan, and in the event that the Committee determines that Excessive Benefits have been paid to any person, the Committee may suspend payment of future benefits to such person or his Beneficiary or reduce the amount of such future benefits until the Excessive Benefits and any interest thereon determined by the Committee have been recovered;

(d) to appoint other persons to carry out any ministerial responsibilities under the Plan as it may determine consistent with applicable law;

(e) to employ one or more persons to render advice with respect to any of its responsibilities under the Plan; and

(f) to amend the Plan from time to time by written resolution for the limited purpose of meeting the requirements of Code Section 409A.

The members of the Committee and the Company and its officers and Directors shall be entitled to rely upon all valuations, certificates and reports furnished by any funding agent or service provider, upon all certificates and reports made by an accountant, and upon all opinions given by any legal counsel selected or approved by the Committee (who may be counsel to the Company) and the members of the Committee and the Company and its officers and Directors shall, except as otherwise provided by law, be fully protected with respect to any action taken or suffered by them in good faith in reliance upon any such valuations, certificates, reports, opinions or other advice of a funding agent, service provider, accountant or counsel.

7.06. Finality of Committee Determinations.

Subject to the provisions of Section 7.08, determinations by the Committee and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan shall be final and binding for all purposes and upon all interested persons, their heirs, and their personal representatives.

7.07. Benefit Claims Procedure.

A claim for a benefit under the Plan by any person shall be filed in the manner and governed by the procedures set forth below:

Upon Separation from Service, death, or any and all types of claims regarding benefits under the Plan, the Participant or his representative may make application to the Committee requesting payment of benefits due. If no application for benefits is made, the Committee shall automatically pay any benefit due pursuant to Section 5. If an application for benefits is made, the Committee shall accept, deny, or modify such request and shall notify the Participant in writing setting forth the Committee's response and in the case of a denial or modification, the Committee shall:

(a) state the specific reason or reasons for the denial,

(b) provide specific reference to pertinent Plan provisions on which the denial or modification is based,

(c) provide a description of any additional material or information necessary for the Participant or his representative to perfect the claim and an explanation of why such material or information is necessary, and

(d) explain the Plan's claim review procedure as contained in this Plan.

In the event the request is rejected or modified, the Participant or his representative may within 60 days following receipt by the Participant or representative of such rejection or modification, submit a written request for review by the Committee of its initial decision. Within 60 days following such request for review (120 days if extraordinary circumstances exist), the Committee shall render its final decision in writing to the Participant or representative stating specific reasons for such decision. If the Participant or representative is not satisfied with the Committee's final decision, the Participant or representative can institute an action in a Federal court of competent jurisdiction; for this purpose, process would be served on the Company.

7.08. Arbitration of Denied Claims.

Any controversy or claim arising out of or relating to a final decision, upon review pursuant to the procedures set forth in Section 7.07, that denies a claim for benefits under the Plan may be settled by arbitration under three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Any such arbitration shall be subject to the statute of limitations that would apply if the claim on which the arbitration is based were brought as a suit in a United States district court under ERISA. The site of any such arbitration shall be Delaware.

SECTION 8. AMENDMENT, SUSPENSION, AND TERMINATION

8.01. By the Compensation Committee.

(a) Authority to Amend. The Compensation Committee of the Board may modify, amend, suspend, or terminate the Plan at any time; provided that no such modification, amendment, suspension, or termination shall reduce a Participant's accrued benefits under the Plan as of the date of such modification, amendment, suspension, or termination, except to the extent that the affected Participants consent in writing to the modification, amendment, suspension, or termination; and provided further that the Plan may be amended at any time and without the consent of the Participants to provide that DSUs shall be paid in cash rather than in shares of Common Stock; and provided further that no such modification, amendment, suspension, or termination shall eliminate, restrict, or modify any of the following provisions of the Plan, except to the extent that the affected Participants consent in writing to the modification, amendment, suspension, or termination:

(1) the provision in Section 2.01(g) that defines "Change in Control";

(2) the provision in Section 5.06 that provides for a lump sum payment following a Change in Control;

(3) the provision in Section 7.08 that permits submission of denied claims for benefits to arbitration; and

(4) the provisions of this Section 8 that protect accrued benefits and limit modification, amendment, suspension, or termination of the Plan.

Except as provided in the preceding sentence, any modification, amendment, suspension, or termination of the Plan may reduce or eliminate a benefit under the Plan. Although the Plan is not subject to ERISA Section 204(g), the accrued benefits that are protected by this Section 8 shall include those accrued benefits that would be protected by ERISA Section 204(g) if the Plan were subject to said Section 204(g) and the rights specified in items (1) through (4), above.

(b) Authority to Delegate. The Board may, in its sole discretion, delegate to any person or persons all or part of its authority and responsibility under the Plan, including, without limitation, the authority to amend the Plan.

8.02. By the Committee.

The Committee shall have the right by written resolution to amend the Plan from time to time, for the limited purpose of meeting the requirements of Code Section 409A.

SECTION 9. MISCELLANEOUS

9.01. Participation by Affiliate.

Subject to the consent of the Compensation Committee, an Affiliate may participate in the Plan by delivering to the Compensation Committee a resolution of its board of directors approving such action. Such Affiliate shall begin participating in the Plan as of an effective date approved by the Compensation Committee and shall be subject to the provisions of the Plan.

9.02. Designation of Beneficiary.

(a) Each Participant may designate a Beneficiary. Such designation shall be in writing, shall be made in the form and manner prescribed by the Committee, and shall be effective only if filed with the Committee prior to the Participant's death. A Participant may, at any time prior to his death, and without the consent of his Beneficiary, change his designation of Beneficiary by filing a written notice of such change with the Committee in the form and manner prescribed by the Committee. In the absence of a designated Beneficiary, or if the designated Beneficiary and any designated contingent Beneficiary predecease the Participant, the Beneficiary shall be the Participant's surviving spouse, or if the Participant has no surviving spouse, the Participant's estate.

(b) If a Participant designates his spouse as his Beneficiary, that designation shall not be revoked or otherwise altered or affected by any:

(1) change in the marital status of the Participant and such spouse,

(2) agreement between the Participant and such spouse, or

(3) judicial decree (such as a divorce decree) affecting any rights that the Participant and such spouse might have as a result of their marriage separation, or divorce,

until and unless the Participant revokes and designates a Beneficiary in accordance with this Section 9.02, it being the intent of the Plan that any change in the designation of a Beneficiary under the Plan may be made by the Participant only in accordance with the provision of this Section 9.02.

9.03. Incapacity.

If the Committee determines that any person entitled to benefits under the Plan is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, brother, sister, or other party deemed by the Committee to have incurred expenses for such person. Any such payment or application of benefits made in good faith in accordance with the provisions of this Section shall be a complete discharge of any liability of the Committee and the Company with respect to such payment or application of benefits.

9.04. Required Information.

Any person eligible to receive benefits under the Plan shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient grounds for delay in the payment of any benefits that may be due under the Plan until such information or proof is received by the Committee. If any person claiming benefits under the Plan makes a false statement that is material to such person's claim for benefits, the Committee may offset against future payments any amount paid to such person to which such person was not entitled under the provisions of the Plan.

9.05. Inability to Locate Participants and Beneficiaries.

Each Participant and each Beneficiary entitled to receive a benefit under the Plan shall keep the Committee advised of his current address. If the Committee is unable to locate a Participant or Beneficiary to whom a benefit is payable under the Plan for a period of 36 months, commencing with the first day of the month as of which such benefit becomes payable, the total amount payable to such Participant or Beneficiary shall be forfeited, subject to being restored (without any intervening investment gains) only if the Participant and Beneficiary provide evidence sufficient to satisfy the Committee that the Participant or Beneficiary is entitled to such forfeited amount.

9.06. Headings.

Any headings used in this document are for convenience of reference only and may not be given any weight in interpreting any provision of the Plan.

9.07. Severability.

If any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if such illegal or invalid provision had never been included in the Plan. In addition, if any provision of the Plan shall be found to violate Code Section 409A or otherwise result in any portion of a Participant's or Beneficiary's benefits under the Plan being subject to income tax prior to distribution, such provision shall be void and unenforceable, and the Plan shall be administered without regard to such provision.

9.08. Governing Law.

The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Delaware (not including its conflict of law rules), except to the extent that such laws are preempted by Federal law.

9.09. Complete Statement of Plan.

This Plan contains a complete statement of its terms. The Plan may be amended, suspended, or terminated only in writing and then only as provided in Section 8. A Participant's right to any benefit of a type provided under the Plan will be determined solely in accordance with the terms of the Plan. No other evidence, whether written or oral, will be taken into account in interpreting the provisions of the Plan.

CHESAPEAKE UTILITIES CORPORATION

By: ______________________

Its: ______________________

Date: ______________________

EXHIBIT A

Rate of Return Indices
Effective January 1, 2009

1. The Fidelity Spartan U.S. Equity Index Fund
2. The BlackRock Total Return II Portfolio
3. The BlackRock Money Market Portfolio

APPENDIX A

**GRANDFATHERED PROVISIONS
TO THE
CHESAPEAKE UTILITIES CORPORATION
DEFERRED COMPENSATION PROGRAM**

APPENDIX A

The following Plan provisions apply only to amounts deferred and vested (within the meaning of Code Section 409A) before January 1, 2005, and any earnings on such amounts, to the full extent permitted by Code Section 409A. Amounts deferred or vested after December 31, 2004, and any earnings thereon, are subject to the provisions of the Plan as amended and restated, effective January 1, 2005, or any subsequent amendment and restatement of the Plan.

Section 1. Establishment and Purpose

1.1 Establishment.

Effective September 1, 1998, the Company established the Chesapeake Utilities Corporation Executive Deferral Program (the “Plan”) for the benefit of the Participants.

1.2 Purpose.

The Plan is an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management and highly compensated employees. The Plan permits Participants to elect to defer payment of part or all of certain specified types of compensation until their termination of employment with the Company or until such other date specified in accordance with the terms of the Plan.

Section 2. Definitions

2.1 Gender and Number.

In order to shorten and to improve the understandability of the Plan document by eliminating the repeated usage of such phrases as “his or her” and “Executive or Executives,” any masculine terminology herein shall also include the feminine and neuter, and the definition of any term herein in the singular shall also include the plural, except when otherwise indicated by the context.

2.2 Definitions.

The following words and phrases as used in the Plan have the following meanings:

“Account” means the bookkeeping account established for each Participant under Section 5.1 hereof. Each Account shall include a Deferred Cash Subaccount and a DSU Subaccount. Additional subaccounts shall be maintained as necessary for the administration of the Plan.

“Beneficiary” means the person designated by a Participant to receive benefits under the Plan after the Participant’s death. Such a designation shall be in writing in a form acceptable to the Committee, and shall be effective as of the date the form is filed with the Committee. If a Participant dies before receiving the entire amount due to him under the Plan, and he has failed to designate a Beneficiary or his designated Beneficiary fails to survive him, his Beneficiary will be the person to whom he is married at the time of his death, or if he is not married at that time, his Beneficiary will be the executor of his will or the administrator of his estate. A Participant may revoke a prior designation of a Beneficiary at any time before the Participant’s death by filing a new form with the Committee.

“Blackout Period” means the period prescribed by Section 3.3(b) hereof following a deferral election during which an Option or SAR subject to the deferral election may not be exercised.

“Board” means the Board of Directors of the Company.

“Bonus Compensation” means compensation received under the Bonus Plan.

“Bonus Plan” means the “Chesapeake Utilities Corporation Cash Bonus Incentive Plan,” as in effect and amended from time to time.

“Change in Control” means the first of the following events occurs:

(a) 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

(b) 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

(c) 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

(d) 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

(e) the Company's 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

(f) 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

(g) 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 or 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 present 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.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the committee appointed by the Board to administer the Plan.

"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.

"Company" means Chesapeake Utilities Corporation or a Related Company.

"Compensation Committee" means the Compensation Committee of the Board.

"Deferred Cash Subaccount" means the subaccount within the Participant's Account to which amounts deferred under Section 3 hereof are credited as described in Section 5.1 hereof.

“Deferred Cash Payment” means an any Bonus Compensation or SAR Spread payable in cash that a Participant elects to defer under the Plan.

“Deferred Stock Units” or **“DSUs”** means hypothetical shares of Common Stock (including hypothetical fractional shares).

“Disability” means total and permanent disability as determined by the Committee in its sole discretion.

“DSU Subaccount” means the subaccount within the Participant’s Account to which amounts deferred under Section 3 hereof are credited as described in Section 5.3 hereof.

“Effective Date” means September 1, 1998.

“Eligible Executive” means an employee of the Company who is eligible to participate in the Bonus Plan or the PIP and who is designated by the Compensation Committee in its sole discretion; provided that, on and after a Change in Control, each employee of the Company who was an Eligible Executive immediately before the Change in Control shall remain an Eligible Executive as long as the employee is employed by the Company or any successor thereto.

“Fair Market Value” means the average of the high and low sales price of the Common Stock, as reported on the New York Stock Exchange (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.

“Option” means a stock option granted under the PIP, other than an incentive stock option under Section 422 of the Code or such other stock option as the Committee may exclude from the Plan.

“Option Shares” means shares of Common Stock issuable upon exercise of an Option in accordance with the terms of the Option.

“Participant” means an Eligible Executive who becomes a participant in the Plan in accordance with Section 3.1 hereof and whose Account hereunder has a positive balance.

“Performance Share Award” means a performance share award granted under the PIP.

“Performance Shares” means shares of Common Stock awardable under a Performance Share Award in accordance with the terms of the Performance Share Award.

“PIP” means the “Chesapeake Utilities Corporation Performance Incentive Plan,” as in effect and as amended from time to time.

“Plan” means the “Chesapeake Utilities Corporation Executive Deferral Program,” as set forth herein and as amended from time to time.

“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.

“Retirement” means termination of employment with the Company at or after attaining age 65, or at such earlier age as accepted by the Committee in its sole discretion.

“SAR” means an award of stock appreciation rights granted under the PIP.

“SAR Spread” means the cash or shares of Common Stock payable to an Eligible Executive or Beneficiary upon exercise of stock appreciation rights in accordance with the terms of the applicable stock appreciation rights agreement, disregarding any withholding taxes due with respect to said exercise.

Section 3. Participation by Eligible Executives

3.1 Election of Benefits.

An Eligible Executive may become a Participant in the Plan by electing to defer Bonus Compensation, Performance Shares, SAR Spread, or Option Shares in accordance with this Section 3.2 or 3.3, as applicable.

3.2 Election Requirements for Bonus Compensation and Performance Shares.

(a) Election Filing Deadline. Except as provided in subsection (b), below, an election to defer receipt of Bonus Compensation or Performance Shares earned with respect to a calendar year shall be filed with the Committee before the calendar year begins.

(b) Initial Elections. An Eligible Executive may file the requisite deferral elections before the expiration of 30 days from the initial effective date of the Plan, and a newly hired or otherwise newly eligible Eligible Executive may file the requisite elections before the expiration of 30 days from either (i) his initial date of employment, if the Eligible Executive is a new hire, or (ii) his initial date of eligibility, if the Eligible Executive is newly eligible to participate in the Plan.

(c) Irrevocable Election. Except as provided in Section 6.4 hereof, a deferral election described in this Section 3.2, once filed, shall be irrevocable and shall remain in effect until the end of the calendar year to which it pertains. Elections under this Section 3.2 shall automatically apply to each subsequent calendar year unless the Participant, before the beginning of the calendar year, revokes his prior election, and in that event, he may file a new election with the Committee before the beginning of the calendar year in accordance with this Section 3. An Eligible Executive who does not make deferral elections in one calendar year may make deferral elections for any subsequent calendar year, provided he remains an Eligible Executive, by making a deferral election in accordance with this Section 3.

(d) Form and Content of Election. An election to make a deferral hereunder shall be in writing, in a form acceptable to the Committee, and shall specify such information as required by the Committee. A deferral election with respect to Bonus Compensation may specify any whole percentage of the Bonus Compensation (from 1% to 100%). A deferral election with respect to Performance Shares must specify 100% of the Performance Shares awarded for a calendar year.

(e) Treatment of Performance Shares. A Participant who elects to defer Performance Shares shall be credited with DSUs rather than with shares of Common Stock. Such DSUs shall be equal in number to the shares of Common Stock that the Participant otherwise would be entitled to receive under the Performance Share Award without taking into account any applicable withholding taxes that otherwise would have been due with respect to the performance Share Award.

3.3 Election Requirements for Option Shares and for SAR Spread

(a) Election Filing Deadline. An election to defer receipt of Option Shares or of the SAR Spread that would be received upon the exercise of an Option or an SAR may be made only within the thirty-six (36) months immediately preceding the scheduled expiration date of the Option or SAR and must be filed with the Committee at least twelve (12) months before the exercise of the Option or the SAR.

(b) Form and Content of Election. An election to make a deferral hereunder shall be in writing, in a form acceptable to the Committee, and shall specify such information as required by the Committee. A deferral election with respect to an Option may be made only with respect to 100% of the shares covered by the Option on the date the deferral election is made. A deferral election with respect to an SAR may be made only with respect to 100% of the shares on which the SAR gives stock appreciation rights on the date the deferral election is made. A deferral election with respect to an Option or SAR shall not have the effect of permitting the exercise of an Option or SAR that is not otherwise exercisable under the terms of the PIP and the applicable stock option or stock appreciation rights agreement. Except as provided in Sections 3.3(c), (d) and (e) hereof, an Option or SAR subject to a deferral election shall not be exercisable during the 12 months immediately following the date on which the deferral election is made (the "Blackout Period").

(c) Hardship.

(i) A Participant who has made a deferral election with respect to an Option or SAR may request that the Committee allow him to revoke all of his outstanding Option and/or SAR deferral elections. The Committee may grant such request in its discretion only if the Committee makes the determination specified in Section 3.3(c)(ii) hereof.

(ii) If the Committee determines that a Participant who has made a deferral election with respect to one or more Options and/or SARs has incurred or will incur a severe financial hardship resulting from an accident or illness with respect to the Participant, his spouse, or his dependent (as defined in section 152 of the Code), or other event beyond the Participant's control, the Committee may grant the Participant's request to revoke all of his outstanding Option and/or SAR deferral elections.

(iii) If the Committee grants a Participant's request to revoke his outstanding Option and/or SAR deferral elections, all of the participant's then outstanding Option and/or SAR deferral elections shall be revoked, and the Options and/or SARs to which such deferral elections applied shall be thereafter governed by the applicable terms of the Options and/or SARs without regard to the deferral elections.

(d) Termination of Employment.

(i) If the Participant makes a deferral election with respect to an Option or SAR, and the Participant's employment with the Company is terminated before the Option or SAR governed by the deferral elections have been exercised in full, such Option or SAR shall be subject to the provisions of this Section 3.3(d).

(ii) If the Participant terminates employment with the Company by reason of voluntary termination (for a reason other than Retirement), Disability or death, the Participant's deferral election shall be automatically revoked and the Option or SAR to which the deferral election applied shall thereafter be governed by the applicable terms of the Option or SAR, determined without regard to the deferral election.

(iii) If the Participant terminates employment with the Company by reason of Retirement, any Blackout Period then in effect shall be immediately terminated and the Participant's deferral election thereupon become effective. Notwithstanding the previous sentence, after giving notice to the Company of his intention to retire, a Participant may request that the Committee allow him to revoke all of his then outstanding Option or SAR deferral elections. The Committee may grant any such request in its discretion. If such a request is made and granted, the Participant's Options and/or SARs subject to deferral elections shall not be exercisable during the 60-day period beginning on the date of the request, and such Options and/or SARs shall become exercisable after the end of the 60-day period in accordance with the applicable terms of the Options and/or SARs, determined without regard to the Participant's deferral elections. If the Participant's request is not granted, the Participant's deferral elections shall remain in effect, and any Blackout period shall terminate upon the Participant's Retirement.

(iv) If the Participant's employment with the Company is involuntarily terminated by the Company, any Blackout Period then in effect shall be immediately terminated, and the deferral elections shall thereupon become effective. Notwithstanding the preceding sentence, after receiving notice from the Company that his employment will be terminated, a Participant may request that the Committee allow him to revoke all of his then outstanding Option and/or SAR deferral elections. The Committee may grant any such request in its discretion. If such a request is made and granted, the Participant's Options and/or SARs subject to the deferral elections shall not be exercisable during the 60-day period beginning on the date of the request, and such Options and/or SARs shall become exercisable after the end of the 60-day period in accordance with the applicable terms of the Options and/or SARs, determined without regard to the Participant's deferral elections. If the Participant's request is not granted, the Participant's deferral elections shall remain in effect, and any Blackout period shall terminate upon the termination of the Participant's employment.

(e) Change in Control. If a Change in Control occurs during a Blackout period, the Blackout Period shall immediately terminate and the Participant's deferral election shall thereupon become effective. No elections to defer Option Shares or SAR Spreads under this Section 3.3 may be made following a Change in Control.

3.4 Form and Time of Payment.

(a) General. An amount deferred under this Section 3 shall be paid in a lump sum as of the date elected by the Participant. An election of the time of payment hereunder shall be in writing in a form acceptable to the Committee, and shall be effective as of the date the form is filed with the Committee, and, subject to Sections 3.3, 3.4(b) and 6.4 hereof, shall be irrevocable.

(b) Modification of Time . A Participant may submit a request at any time to the Committee to modify the payment date with respect to a deferral election subject to the following requirements:

(i) Only one such request may be made in any Plan Year.

(ii) A request must be made before any payment is made with respect to the deferral election (except a hardship payment under Section 6.4 hereof).

(iii) The Committee may grant or deny the request in its sole discretion.

(iv) A request to accelerate payment may not have an accelerated payment date that is less than one year from the date the request is submitted.

(v) A request to delay payment must be made at least 60 days before the start of the calendar year in which payment otherwise would have been made.

Section 4. Exercise of Options and SARs Subject to Deferral Elections

4.1 General.

If, after a deferral election is made with respect to an Option or SAR and the resulting Blackout Period terminates, the Participant exercises an Option or SAR to which the deferral election applies, the exercise shall be governed by the provisions of this Section 4.

4.2 Exercise of Option.

(a) General. When he exercises an Option, the Participant shall pay the exercise price either by paying cash or by surrendering shares of previously owned Common Stock which shares have been owned by the Participant for at least six months (including a surrender that is effected by attestation).

(b) Payment in Shares. If the Participant pays the exercise price by surrendering previously-owned shares of Common Stock, the Participant shall receive in return shares of Common Stock equal in number to the shares of Common Stock he surrendered.

(c) Crediting with DSUs. Except for any shares the Participant receives in accordance with Section 4.2(b) hereof, the Participant shall be credited with DSUs rather than with shares of Common Stock. Such DSUs shall be equal in number to the shares of Common Stock that the Participant otherwise would be entitled to receive upon the exercise of the Option, less any shares described in Section 4.2(b) hereof, and without taking into account any applicable withholding taxes that otherwise would have been due with respect to said exercise.

4.3 Exercise of SAR.

(a) General. When a Participant exercises an SAR, the SAR Spread shall not be paid to him. Instead, the SAR Spread shall be credited to the Participant’s Account as provided in Section 4.3(b) or 4.3(c) hereof.

(b) Crediting of Deferred Cash Subaccount. If the applicable stock appreciation rights agreement provides that the SAR Spread is due the Participant in cash, the SAR Spread shall be credited to the Participant’s Deferred Cash Subaccount.

(c) Crediting of DSU Subaccount. If the applicable stock appreciation rights agreement provides that the SAR Spread is due the Participant in shares of Common Stock, the Participant’s DSU Subaccount shall be credited with DSUs equal in number to the shares of Common Stock that the Participant would otherwise be entitled to receive upon exercise of the SAR.

Section 5. Accounts

5.1 Accounts.

(a) General. The Company shall maintain for bookkeeping purposes an Account in the name of each Participant. Each Account shall have a Deferred Cash Subaccount and a DSU Subaccount, as applicable, to which shall be credited amounts deferred under Section 3 hereof.

(b) Deferred Cash Payments. All amounts of Bonus Compensation and SAR Spread due in cash (as described in Section 4.3(b) hereof) deferred under the Plan shall be credited to the Participant's Deferred Cash Subaccount, as shall be any amounts provided under Section 5.2 hereof.

(c) DSUs. All DSUs with which a Participant is credited pursuant to Sections 3.2, 4.2, and 4.3(c) hereof shall be credited to the Participant's DSU Subaccount, as shall any amounts provided under Section 5.3 hereof.

5.2 Investment Return for Deferred Cash Subaccount.

(a) Rate of Return Indices. The Committee shall select and maintain one or more rate of return indices as specified on Exhibit A attached hereto as amended from time to time. A Deferred Cash Payment shall be allocated to one or more of the rate of return indices and shall be credited with the applicable investment return (or loss) that such Deferred Cash Payment would have achieved if it were invested in the specified index or indices.

(b) Election of Rate of Return Indices.

(i) Each Participant shall specify in writing, at the time he completes his election to participate under Section 3 hereof, and in a form acceptable to the Committee, how any Deferred Cash Payment shall be allocated among the indices specified on Exhibit A attached hereto.

(ii) The Committee may, in its discretion and from time to time, permit a Participant to change any election previously made with respect to the allocation of any Deferred Cash Payment, subject to such conditions and such limitations as the Committee may prescribe. Any such change in election shall be in writing and in a form acceptable to the Committee.

(iii) The Committee may, in its discretion and from time to time, permit a Participant to elect to reallocate the amounts in such Participant's Deferred Cash Subaccount from one rate of return index to another, subject to such conditions and such limitations as the Committee may prescribe; provided that a Participant shall be permitted, at least once per calendar month, to reallocate amounts previously allocated. Any such reallocation election shall be in writing and in a form acceptable to the Committee.

(iv) The Committee may require that any election under this Section 5.2 apply to the entire amount to which it pertains (e.g., 100% of the Participant's future contributions) or to such percentage or percentages of that amount as the Committee may specify (e.g., increments of 5%).

(v) If a Participant fails to specify a rate of return index with respect to his Deferred Cash Payments, the Participant shall be presumed to have specified that his entire Deferred Cash Subaccount be allocated to the index determined by the Committee to represent the lowest risk of principal loss.

(c) Crediting of Investment Return. The balance credited to the Participant's Deferred Cash Subaccount as of the last day of the prior month shall be credited with the applicable investment return (or loss) as of the last day of the month of crediting. All references herein to Deferred Cash Payments shall be deemed to include such Deferred Cash Payments plus any investment return (or loss) credited pursuant to this Section 5.2.

5.3 Treatment of DSUs.

(a) Deemed Reinvestment of Dividends on DSUs. The DSUs credited to a Participant's DSU Subaccount pursuant to Sections 3.2, 4.2, and 4.3(c) hereof shall be increased on each date that a dividend is paid on Common Stock. The number of additional DSUs credited to a Participant's DSU Subaccount as a result of such increase shall be determined first by multiplying the number of DSUs credited to the Participant's DSU Subaccount on the dividend record date by the amount of the dividend declared per share of Common Stock on the dividend declaration date, and then by dividing the product so determined by the Fair Market Value of the Common Stock on the dividend declaration date.

(b) Conversion Out of DSUs. Amounts credited to the DSU Subaccount generally will be paid in the corresponding number of shares of Common Stock. In the event, however, that it becomes necessary to determine the dollar value of DSUs credited to a Participant's DSU Subaccount as of any date, the dollar value shall be determined by multiplying the number of DSUs on that date by the Fair Market Value of the Common Stock on that date.

(c) Effect of Recapitalization. In the event of a transaction or event described in this Section 5.3 (c), the number of DSUs credited to a Participant's DSU Subaccount shall be adjusted in such manner as the Committee, in its sole discretion, deems equitable. A transaction or event is described in this Section 5.3 (c), if and only if

(i) it is a dividend or other distribution (whether in the form of cash, shares, other securities, or other property), extraordinary cash distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of shares or other securities, the issuance of warrants or other rights to purchase shares or other securities, or other similar corporate transaction or event; and

(ii) the Committee determines that such transaction or event affects the Common Stock such that an adjustment pursuant to this Section 5.3(c) is appropriate to prevent dilution or enlargement of the benefits made available under the Plan

5.4 Vesting of Accounts.

Subject to the limitations of Section 7 hereof, balances credited to Participants' Accounts shall be nonforfeitable.

Section 6. Distributions

6.1 Exclusive Entitlement to Payment.

A Participant's deferral election pursuant to Section 3 hereof shall constitute a waiver of his right to receive the amount deferred and an agreement to receive in lieu thereof the amounts payable to him at the times and in the methods specified in this Section 6. No other amounts shall be due under the Plan or otherwise as a result of a Participant's deferral election under Section 3 hereof.

6.2 Payment.

(a) Time of Payment. The amount credited to a Participant's Account pursuant to Section 5 hereof shall be paid at the time(s) specified by the Participant. If the deferred amounts are subject to more than one distribution election made in accordance with Section 3.4 hereof, then the portion of the Account that is subject to each election shall be distributed in accordance with the applicable election.

(b) Form of Payment. All amounts credited to the Deferred Cash Subaccount shall be paid in cash. All amounts credited to the DSU Subaccount shall be paid solely in shares of Common Stock, except that cash shall be paid in lieu of fractional shares. Any reference in the Plan to a payment of DSUs shall refer to a distribution of shares of Common Stock equal to the number of DSUs, except that it shall refer to a payment of cash in lieu of a fractional share. For this purpose, the cash value of a fractional share shall be determined in accordance with Section 5.3(b) hereof.

(c) Effect of Deferral on Restriction or Vesting Period. If a share of Common Stock would have been subject to any restriction or vesting period upon transfer to a Participant under an Option or Performance Share Award in the absence of a deferral election, such share shall be subject to such restriction or vesting period upon payment from the Plan; provided however, that any period of deferral under the Plan shall be credited toward the satisfaction of any such restriction or vesting period.

6.3 Death of Participant.

(a) Amount of Death Benefit. Any amount credited to a Participant's Account hereunder that is unpaid at the time of the Participant's death shall be paid in a single lump sum to the Beneficiary designated by the Participant.

(b) Payment of Death Benefits. A distribution pursuant to this Section 6.3 shall be made to the Participant's Beneficiary within 90 days after the Committee receives written notification of the Participant's death, together with any additional information or documentation that the Committee determines to be necessary or appropriate before it makes the distribution.

6.4 Hardship Distributions.

At any time, upon the written application of the Participant, the Committee may (i) reduce or eliminate the Participant's future deferrals of Bonus Compensation or Performance Shares hereunder, (ii) revoke all of the Participant's outstanding deferral elections with respect to Options and/or SARs in accordance with Section 3.3(c) hereof, or (iii) accelerate and pay in a lump sum to the Participant all or part of the balance of the Participant's Account hereunder, or all of the above, if the Committee finds, in its sole discretion, that the Participant has incurred or will incur a severe financial hardship resulting from an accident or illness with respect to the Participant, his spouse, or his dependent (as defined in Section 152 of the Code), or other event beyond the Participant's control. In such circumstances, the Committee shall reduce or eliminate the future deferrals, revoke all Option and/or SAR deferral elections and/or accelerate the payment only to the extent reasonably necessary to eliminate or to avoid the severe financial hardship.

Section 7. Nature of Participant's Interest in Plan

7.1 No Right to Assets.

Participation in the Plan does not create, in favor of any Participant or Beneficiary, any right or lien in or against any asset of the Company. Nothing contained in the Plan, and no action taken under its provisions, will create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and a Participant or any other person. Each account and investment established under the Plan shall be hypothetical in nature and shall be maintained for bookkeeping purposes only. The accounts established under the Plan shall hold no actual funds or assets. The Company's promise to pay benefits under the Plan will, at all times remain unfunded as to each Participant and Beneficiary, whose rights under the Plan are limited to those of a general and unsecured creditor of the Company.

7.2 No Right to Transfer Interest.

Rights to benefits payable under the Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance. However, the Committee may permit a Participant or Beneficiary to enter into a revocable arrangement to pay all or part of his benefits under the Plan to a revocable grantor trust (a so-called "living trust") In addition, the Committee may recognize the right of an alternate payee named in a domestic relations order to receive all or part of a Participant's benefits under the Plan, but only if (a) the domestic relations order would be a "qualified domestic relations order") within the meaning of Section 414(p) of the Code (if Section 414(p) applied to the Plan), (b) the domestic relations order does not attempt to give the alternate payee any right to any asset of the Company, (c) the domestic relations order does not attempt to give the alternate payee any right to receive payments under the Plan at a time or in an amount that the Participant could not receive under the Plan, and (d) the amount of the Participant's benefits under the Plan are reduced to reflect any payments made or due the alternate payee.

7.3 No Employment Rights.

No provisions of the Plan and no action taken by the Company, the Board, the Compensation Committee, or the Committee will give any person any right to be retained in the employ of the Company, and the Company specifically reserves the right and power to dismiss or discharge any Participant.

7.4 Withholding and Tax Liabilities.

The amount of any withholdings required to be made by any government or government agency will be deducted from benefits paid under the Plan to the extent deemed necessary by the Committee. In addition, the Participant or Beneficiary (as the case may be) will bear the cost of any taxes not withheld on benefits provided under the Plan, regardless of whether withholding is required.

Section 8. Administration, Interpretation, and Modification of Plan

8.1 Plan Administrator.

The Committee will administer the Plan.

8.2 Powers of Committee.

The Committee's powers include, but are not limited to, the power to adopt rules consistent with the Plan; the power to decide all questions relating to the interpretation of the terms and provisions of the Plan; the power to determine the number and nature of the rate of return indices specified on Exhibit A attached hereto; the power to compute the amount of benefits that shall be payable to any Participant or Beneficiary in accordance with the provisions of the Plan, and in the event that the Committee determines that excessive benefits have been paid to any person, the Committee may suspend payment of future benefits to such person or his Beneficiary or reduce the amount of such future benefits until the excessive benefits and any interest thereon determined by the Committee have been recovered; and the power to resolve all other questions arising under the Plan (including, without limitation, the power to remedy possible ambiguities, inconsistencies, or omissions by a general rule or particular decision). The Committee has discretionary authority to exercise each of the foregoing powers.

8.3 Finality of Committee Determinations.

Determinations by the Committee and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan will be final and binding for all purposes and upon all interested persons, their heirs, and their personal representatives.

8.4 Required Information.

Any person eligible to receive benefits hereunder shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient grounds for delay in the payment of any benefits that may be due under the Plan until such information or proof is received by the Committee. If any person claiming benefits under the Plan makes a false statement that is material to such person's claim for benefits, the Committee may offset against future payments any amount paid to such person to which such person was not entitled under the provisions of the Plan.

8.5 Incapacity.

If the Committee determines that any person entitled to benefits under the Plan is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, brother, sister, or other party deemed by the Committee to have incurred expenses for such person.

8.6 Amendment, Suspension, and Termination.

(a) Board. The Board has the right by written resolution to amend, suspend, or terminate the Plan at any time provided that no such amendment, suspension, or termination of the Plan shall divest any Participant of the balance credited to his Account as of the effective date of such amendment, suspension, or termination, except to the extent that an affected Participant consents in writing to the amendment, suspension, or termination, and provided further, however, that the Plan may be amended at any time and without the consent of the Participants to provide that DSUs shall be paid in cash rather than in shares of Common Stock.

(b) Committee. The Board delegates to the Committee the right by written resolution to amend the Plan for the limited purpose of amending Exhibit A of the Plan.

8.7 Change in Control.

Notwithstanding Section 8.6 hereof, 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 deferred amounts,

(b) altering the meaning or operation of the definition of “Change in Control” in Section 2 hereof (and of the definition of all the defined terms that appear in the definition of “Change in Control”), the provisions of Section 8.6 hereof or this Section 8.7, or any rule, regulation, procedure, provision or determination made or adopted prior to the Change in Control pursuant to Section 8.6 hereof 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, regulation 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.

8.8 Power to Delegate Authority.

(a) Board. The Board may, in its sole discretion, delegate to any person or persons all or part of its authority and responsibility under the Plan, including, without limitation, the authority to amend the Plan.

(b) Administrative. The Committee may, in its sole discretion, delegate to any person or persons all or part of its authority and responsibility under the Plan.

8.9 Inability to Locate Participants and Beneficiaries.

Each Participant or Beneficiary entitled to receive payment under the Plan shall keep the Committee advised of his current address. If the Committee is unable for a period of thirty-six (36) months to locate a Participant or Beneficiary to whom a payment is due, the total amount payable shall be forfeited. Should the Participant or Beneficiary request payment thereafter, the Committee shall, upon satisfaction of its requests for any corroborating documentation, restore and pay the forfeited amount in a lump sum, the value of which shall not be adjusted for any earnings or gains during the period of forfeiture.

8.10 Headings.

The headings used in this document are for convenience of reference only and may not be given any weight in interpreting any provision of the Plan.

8.11 Severability.

If any provision of the Plan is held illegal or invalid for any reason, the illegality or invalidity of that provision will not affect the remaining provisions of the Plan, and the Plan will be construed and enforced as if the illegal or invalid provision had never been included in the Plan.

8.12 Governing Law.

The Plan will be construed, administered, and regulated in accordance with the laws of the State of Delaware, except to the extent that those laws are preempted by federal law.

8.13 Complete Statement of Plan.

This Plan contains a complete statement of its terms. This Plan and elections made pursuant to this Plan supersede any conflicting terms of the Bonus Plan, the PIP, or any agreement executed pursuant to the Bonus Plan or the PIP. The Plan may be amended, suspended, or terminated only in writing and then only as provided in Section 8.6 hereof. A Participant's right to any benefit of a type provided under the Plan will be determined solely in accordance with the terms of the Plan. No other evidence, whether written or oral, will be taken into account in interpreting the provisions of the Plan.

S. Robert Zola

FIRST AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This First Amendment to Executive Employment Agreement (this "Amendment") is made effective as of January 1, 2009, by and between **Chesapeake Utilities Corporation**, a Delaware corporation (the "Company"), and **S. Robert Zola** (the "Executive").

Background Information

The parties to this Amendment (the "Parties") entered into an Executive Employment Agreement as of December 29, 2006 (the "Original Agreement"), regarding the Executive's employment relationship with the Company. The Parties desire to amend the Original Agreement as set forth below.

Agreement

1. Definitions. All capitalized terms used in this Amendment but which are not otherwise defined herein, shall have the respective meanings given those terms in the Original Agreement.

2. Amendments to Original Agreement.

(a) Compensation and Benefits. Subparagraphs 5(c)(i) and 5(c)(ii) of the Original Agreement are hereby deleted in their entirety and, in lieu thereof, there is substituted the following:

> "(i) Chesapeake Utilities Corporation Performance Incentive Plan. Executive shall be eligible for an incentive compensation award equal to 3,200 shares of the Company's common stock granted on an annual basis at the discretion of the Board during the Term of this Agreement.
>
> (ii) Chesapeake Utilities Corporation Cash Bonus Incentive Plan. Executive shall be eligible for a cash bonus award equal to 30 percent (30%) of Base Compensation, granted on an annual basis at the discretion of the Board during the Term of this Agreement. At the discretion of the Board, Executive shall also be eligible for an additional cash bonus award equal to 10 percent (10%) of the excess of the Sharp's earnings before interest and taxes ("EBIT") for the respective year over the upper EBIT target for the same year."

(b) Expenses. Paragraph 5(g) of the Agreement is hereby amended by adding the following to the end thereof:

> "If any reimbursements under this provision are taxable to the Executive, such reimbursements shall be paid on or before the end of the calendar year following the calendar year in which the reimbursable expense was incurred, and the Company shall not be obligated to pay any such reimbursement amount for which Executive fails to submit an invoice or other documented reimbursement request at least 10 business days before the end of the calendar year next following the calendar year in which the expense was incurred. Such expenses shall be reimbursable only to the extent they were incurred during the Term of the Agreement. In addition, the amount of such reimbursements that the Company is obligated to pay in any given calendar year shall not affect the amount the Company is obligated to pay in any other calendar year. In addition, Executive may not liquidate or exchange the right to reimbursement of such expenses for any other benefits."

(c) Payment Upon Termination During Extended Term. Paragraph 6(c) of the Agreement is hereby amended by adding the following to the end thereof:

"In addition, and notwithstanding the foregoing provisions of this Paragraph 6(c), if the Extended Termination Date occurs more than two (2) years after the occurrence of a Change in Control, then the amount payable in cash under this provision shall be payable in substantially equal installments over the one (1) year period following the Executive's "separation from service" within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The number of substantially equal installments shall be equal to the number of regular payroll periods during said one (1) year period, with one installment payable on each such payroll period. In addition, to the extent required in order to comply with Code Section 409A, cash amounts that would otherwise be payable under this Paragraph 6(c) during the six-month period immediately following the Extended Termination Date (and which are not eligible for the exception applicable to payments due to involuntary separation under Treas. Reg. Section 1.409A-1(b)(9)(iii)) shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's "separation from service" within the meaning of Code Section 409A. Further, any taxable welfare benefits provided to Executive pursuant to this Paragraph 6(c) that are not "disability pay" or "death benefits" within the meaning of Treas. Reg. Section 1.409A-1(a)(5) (collectively, the "Applicable Benefits") shall be subject to the following requirements in order to comply with Code Section 409A. The amount of any Applicable Benefits provided during one taxable year shall not affect the amount of the Applicable Benefits provided in any other taxable year, except that with respect to any Applicable Benefits that consist of the reimbursement of expenses referred to in Code Section 105(b), a limitation may be imposed on the amount of such reimbursements over some or all of the Covered Period, as described in Treas. Reg. Section 1.409A-3(i)(1)iv)(B). To the extent that any Applicable Benefits consist of the reimbursement of eligible expenses, such reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred. No Applicable Benefits may be liquidated or exchanged for another benefit. During the period of six (6) months immediately following Executive's separation from service (within the meaning of Code Section 409A), Executive shall be obligated to pay the Company the full cost for any Applicable Benefits that do not constitute health benefits of the type required to be provided under the health continuation coverage requirements of Code Section 4980B, and the Company shall reimburse Executive for any such payments on the first business day that is more than six (6) months after Executive's separation from service, together with interest on such amount from the date of separation from service through the date of payment at the applicable federal rate under Code Section 7872(f)(2)(A)."

(d) Maximum Payment Upon Termination. Paragraph 7(b) of the Agreement is hereby amended by adding the following to the end thereof:

> "Notwithstanding the foregoing, if the exercise of discretion reserved to the Executive in determining the Notice of Application would violate Code Section 409A, then such discretion shall be eliminated and the amounts payable under Paragraph 6(c) shall be reduced proportionately."

(e) Code Section 409A. Paragraph 20 of the Agreement is hereby deleted in its entirety and, in lieu thereof, there is substituted the following:

> "Notwithstanding any provision of Paragraph 10 or 14 of this Agreement to the contrary, any legal fees and expenses to be paid by the Company pursuant to Paragraph 10 or 14 shall be subject to the following requirements in order to comply with Code Section 409A. Such legal fees and expenses shall be paid by the Company only to the extent incurred during the Term of the Agreement or for a period of ten (10) years after the Executive's "separation from service" (as defined in Code Section 409A). The Company shall pay such legal fees and expenses no later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, and the Company shall not be obligated to pay any such fees and expenses for which the Executive fails to submit an invoice at least ten (10) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit."

3. Captions. The captions of the various sections of this Amendment are not part of the context of this Amendment, but are only labels to assist in locating those sections, and shall be ignored in construing this Amendment.

4. Construction. This document is an amendment to the Original Agreement. As used in the Original Agreement, the term "Agreement" shall mean the Original Agreement as amended by this Amendment. In the event of any conflict with or inconsistency between the provisions of the Original Agreement and this Amendment, the provisions of this Amendment shall control and supersede to the extent of such conflict or inconsistency. Except as modified by this Amendment, the Original Agreement shall continue in full force and effect without change. The Company and Executive hereby ratify and confirm the Original Agreement, as amended hereby.

[Signatures on Following Page]

IN WITNESS WHEREOF, the parties have executed this First Amendment to Executive Employment Agreement as of the day and year first above written.

THE EXECUTIVE:

____
S. Robert Zola

THE COMPANY:

CHESAPEAKE UTILITIES CORPORATION

By:______________________________________
Name: ________________________________
Its: ________________________________

Exhibit 10.9

Stephen C. Thompson

AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Amendment to Executive Employment Agreement (this “Amendment”) is made effective as of January 1, 2009, by and between **Chesapeake Utilities Corporation**, a Delaware corporation (the “Company”), and **Stephen C. Thompson** (the “Executive”).

<u>Background Information</u>

The parties to this Amendment (the “Parties”) entered into an Executive Employment Agreement as of December 26, 2006 (the “Employment Agreement”), regarding the Executive’s employment relationship with the Company. The Parties desire to amend the Employment Agreement pursuant to Paragraphs 18 and 20 of the Employment Agreement in order to comply with the final Treasury Regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”). The Employment Agreement, as amended by this Amendment, is hereinafter collectively referred to as the “Agreement.”

<u>Amendment of the Employment Agreement</u>

The Parties hereby acknowledge the accuracy of the foregoing Background Information and hereby agree as follows:

1. <u>Definitions</u>. All capitalized terms used in this Agreement but which are not otherwise defined herein, shall have the respective meanings given those terms in the Employment Agreement, as applicable.

2. <u>Expenses</u>. Paragraph 5(g) of the Agreement is hereby amended by adding the following to the end thereof:

“If any reimbursements under this provision are taxable to the Executive, such reimbursements shall be paid on or before the end of the calendar year following the calendar year in which the reimbursable expense was incurred, and the Company shall not be obligated to pay any such reimbursement amount for which Executive fails to submit an invoice or other documented reimbursement request at least 10 business days before the end of the calendar year next following the calendar year in which the expense was incurred. Such expenses shall be reimbursable only to the extent they were incurred during the term of the Agreement. In addition, the amount of such reimbursements that the Company is obligated to pay in any given calendar year shall not affect the amount the Company is obligated to pay in any other calendar year. In addition, Executive may not liquidate or exchange the right to reimbursement of such expenses for any other benefits.”

3. Payment Upon Termination During Extended Term. Paragraph 6(c) of the Agreement is hereby amended by adding the following to the end thereof:

"In addition, and notwithstanding the foregoing provisions of this Paragraph 6(c), if the Extended Termination Date occurs more than two (2) years after the occurrence of a Change in Control, then the amount payable in cash under this provision shall be payable in substantially equal installments over the one (1) year period following the Executive's "separation from service" within the meaning of Code Section 409A. The number of substantially equal installments shall be equal to the number of regular payroll periods during said one (1) year period, with one installment payable on each such payroll period. In addition, to the extent required in order to comply with Code Section 409A, cash amounts that would otherwise be payable under this Paragraph 6(c) during the six-month period immediately following the Extended Termination Date (and which are not eligible for the exception applicable to payments due to involuntary separation under Treas. Reg. Section 1.409A-1(b)(9)(iii)) shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's "separation from service" within the meaning of Code Section 409A. Further, any taxable welfare benefits provided to Executive pursuant to this Paragraph 6(c) that are not "disability pay" or "death benefits" within the meaning of Treas. Reg. Section 1.409A-1(a)(5) (collectively, the "Applicable Benefits") shall be subject to the following requirements in order to comply with Code Section 409A. The amount of any Applicable Benefits provided during one taxable year shall not affect the amount of the Applicable Benefits provided in any other taxable year, except that with respect to any Applicable Benefits that consist of the reimbursement of expenses referred to in Code Section 105(b), a limitation may be imposed on the amount of such reimbursements over some or all of the Covered Period, as described in Treas. Reg. Section 1.409A-3(i)(1)iv)(B). To the extent that any Applicable Benefits consist of the reimbursement of eligible expenses, such reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred. No Applicable Benefits may be liquidated or exchanged for another benefit. During the period of six (6) months immediately following Executive's separation from service (within the meaning of Code Section 409A), Executive shall be obligated to pay the Company the full cost for any Applicable Benefits that do not constitute health benefits of the type required to be provided under the health continuation coverage requirements of Code Section 4980B, and the Company shall reimburse Executive for any such payments on the first business day that is more than six (6) months after Executive's separation from service, together with interest on such amount from the date of separation from service through the date of payment at the applicable federal rate under Code Section 7872(f)(2)(A)."

4. Maximum Payment Upon Termination. Paragraph 7(b) of the Agreement is hereby amended by adding the following to the end thereof:

"Notwithstanding the foregoing, if the exercise of discretion reserved to the Executive in determining the Notice of Application would violate Code Section 409A, then such discretion shall be eliminated and the amounts payable under Paragraph 6(c) shall be reduced proportionately."

5. Code Section 409A. Paragraph 20 of the Agreement, the existing text of which is redundant of Paragraph 18, shall be replaced with the following:

"Notwithstanding any provision of Paragraph 10 or 14 of the Employment Agreement to the contrary, any legal fees and expenses to be paid by the Company pursuant to Paragraph 10 or 14 shall be subject to the following requirements in order to comply with Code Section 409A. Such legal fees and expenses shall be paid by the Company only to the extent incurred during the Term of the Agreement or for a period of ten (10) years after the Executive's "separation from service" (as defined in Code Section 409A). The Company shall pay such legal fees and expenses no later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, and the Company shall not be obligated to pay any such fees and expenses for which the Executive fails to submit an invoice at least ten (10) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit."

6. Captions. The captions of the various sections of this Amendment are not part of the context of this Amendment, but are only labels to assist in locating those sections, and shall be ignored in construing this Amendment.

7. Construction. This document is an amendment to the Employment Agreement. In the event of any inconsistencies between the provisions of the Employment Agreement and this Amendment, the provisions of this Amendment shall control. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect without change.

EXECUTIVE:

______________________________ Date: ______________________________

Stephen C. Thompson

CHESAPEAKE UTILITIES CORPORATION

By: ______________________________ Date: ______________________________

Its: ______________________________

Beth W. Cooper

AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Amendment to Executive Employment Agreement (this “Amendment”) is made effective as of January 1, 2009, by and between **Chesapeake Utilities Corporation**, a Delaware corporation (the “Company”), and **Beth W. Cooper** (the “Executive”).

Background Information

The parties to this Amendment (the “Parties”) entered into an Executive Employment Agreement as of December 29, 2006 (the “Employment Agreement”), regarding the Executive’s employment relationship with the Company. The Parties desire to amend the Employment Agreement pursuant to Paragraphs 18 and 20 of the Employment Agreement in order to comply with the final Treasury Regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”). The Employment Agreement, as amended by this Amendment, is hereinafter collectively referred to as the “Agreement.”

Amendment of the Employment Agreement

The Parties hereby acknowledge the accuracy of the foregoing Background Information and hereby agree as follows:

1. Definitions. All capitalized terms used in this Agreement but which are not otherwise defined herein, shall have the respective meanings given those terms in the Employment Agreement, as applicable.

2. Expenses. Paragraph 5(g) of the Agreement is hereby amended by adding the following to the end thereof:

“If any reimbursements under this provision are taxable to the Executive, such reimbursements shall be paid on or before the end of the calendar year following the calendar year in which the reimbursable expense was incurred, and the Company shall not be obligated to pay any such reimbursement amount for which Executive fails to submit an invoice or other documented reimbursement request at least 10 business days before the end of the calendar year next following the calendar year in which the expense was incurred. Such expenses shall be reimbursable only to the extent they were incurred during the term of the Agreement. In addition, the amount of such reimbursements that the Company is obligated to pay in any given calendar year shall not affect the amount the Company is obligated to pay in any other calendar year. In addition, Executive may not liquidate or exchange the right to reimbursement of such expenses for any other benefits.”

3. Payment Upon Termination During Extended Term. Paragraph 6(c) of the Agreement is hereby amended by adding the following to the end thereof:

"In addition, and notwithstanding the foregoing provisions of this Paragraph 6(c), if the Extended Termination Date occurs more than two (2) years after the occurrence of a Change in Control, then the amount payable in cash under this provision shall be payable in substantially equal installments over the one (1) year period following the Executive's "separation from service" within the meaning of Code Section 409A. The number of substantially equal installments shall be equal to the number of regular payroll periods during said one (1) year period, with one installment payable on each such payroll period. In addition, to the extent required in order to comply with Code Section 409A, cash amounts that would otherwise be payable under this Paragraph 6(c) during the six-month period immediately following the Extended Termination Date (and which are not eligible for the exception applicable to payments due to involuntary separation under Treas. Reg. Section 1.409A-1(b)(9)(iii)) shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's "separation from service" within the meaning of Code Section 409A. Further, any taxable welfare benefits provided to Executive pursuant to this Paragraph 6(c) that are not "disability pay" or "death benefits" within the meaning of Treas. Reg. Section 1.409A-1(a)(5) (collectively, the "Applicable Benefits") shall be subject to the following requirements in order to comply with Code Section 409A. The amount of any Applicable Benefits provided during one taxable year shall not affect the amount of the Applicable Benefits provided in any other taxable year, except that with respect to any Applicable Benefits that consist of the reimbursement of expenses referred to in Code Section 105(b), a limitation may be imposed on the amount of such reimbursements over some or all of the Covered Period, as described in Treas. Reg. Section 1.409A-3(i)(1)iv)(B). To the extent that any Applicable Benefits consist of the reimbursement of eligible expenses, such reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred. No Applicable Benefits may be liquidated or exchanged for another benefit. During the period of six (6) months immediately following Executive's separation from service (within the meaning of Code Section 409A), Executive shall be obligated to pay the Company the full cost for any Applicable Benefits that do not constitute health benefits of the type required to be provided under the health continuation coverage requirements of Code Section 4980B, and the Company shall reimburse Executive for any such payments on the first business day that is more than six (6) months after Executive's separation from service, together with interest on such amount from the date of separation from service through the date of payment at the applicable federal rate under Code Section 7872(f)(2)(A)."

4. Maximum Payment Upon Termination. Paragraph 7(b) of the Agreement is hereby amended by adding the following to the end thereof:

"Notwithstanding the foregoing, if the exercise of discretion reserved to the Executive in determining the Notice of Application would violate Code Section 409A, then such discretion shall be eliminated and the amounts payable under Paragraph 6(c) shall be reduced proportionately."

5. Code Section 409A. Paragraph 20 of the Agreement, the existing text of which is redundant of Paragraph 18, shall be replaced with the following:

"Notwithstanding any provision of Paragraph 10 or 14 of the Employment Agreement to the contrary, any legal fees and expenses to be paid by the Company pursuant to Paragraph 10 or 14 shall be subject to the following requirements in order to comply with Code Section 409A. Such legal fees and expenses shall be paid by the Company only to the extent incurred during the Term of the Agreement or for a period of ten (10) years after the Executive's "separation from service" (as defined in Code Section 409A). The Company shall pay such legal fees and expenses no later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, and the Company shall not be obligated to pay any such fees and expenses for which the Executive fails to submit an invoice at least ten (10) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit."

6. Captions. The captions of the various sections of this Amendment are not part of the context of this Amendment, but are only labels to assist in locating those sections, and shall be ignored in construing this Amendment.

7. Construction. This document is an amendment to the Employment Agreement. In the event of any inconsistencies between the provisions of the Employment Agreement and this Amendment, the provisions of this Amendment shall control. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect without change.

EXECUTIVE:

______________________________ Date: ______________________________

Beth W. Cooper

CHESAPEAKE UTILITIES CORPORATION

By:______________________________ Date: ______________________________

Its: ______________________________

Exhibit 10.13

Michael P. McMasters

AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Amendment to Executive Employment Agreement (this "Amendment") is made effective as of January 1, 2009, by and between **Chesapeake Utilities Corporation**, a Delaware corporation (the "Company"), and **Michael P. McMasters** (the "Executive").

Background Information

The parties to this Amendment (the "Parties") entered into an Executive Employment Agreement as of December 29, 2006 (the "Employment Agreement"), regarding the Executive's employment relationship with the Company. The Parties desire to amend the Employment Agreement pursuant to Paragraphs 18 and 20 of the Employment Agreement in order to comply with the final Treasury Regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The Employment Agreement, as amended by this Amendment, is hereinafter collectively referred to as the "Agreement."

Amendment of the Employment Agreement

The Parties hereby acknowledge the accuracy of the foregoing Background Information and hereby agree as follows:

1. Definitions. All capitalized terms used in this Agreement but which are not otherwise defined herein, shall have the respective meanings given those terms in the Employment Agreement, as applicable.

2. Expenses. Paragraph 5(g) of the Agreement is hereby amended by adding the following to the end thereof:

"If any reimbursements under this provision are taxable to the Executive, such reimbursements shall be paid on or before the end of the calendar year following the calendar year in which the reimbursable expense was incurred, and the Company shall not be obligated to pay any such reimbursement amount for which Executive fails to submit an invoice or other documented reimbursement request at least 10 business days before the end of the calendar year next following the calendar year in which the expense was incurred. Such expenses shall be reimbursable only to the extent they were incurred during the term of the Agreement. In addition, the amount of such reimbursements that the Company is obligated to pay in any given calendar year shall not affect the amount the Company is obligated to pay in any other calendar year. In addition, Executive may not liquidate or exchange the right to reimbursement of such expenses for any other benefits."

3. Payment Upon Termination During Extended Term. Paragraph 6(c) of the Agreement is hereby amended by adding the following to the end thereof:

"In addition, and notwithstanding the foregoing provisions of this Paragraph 6(c), if the Extended Termination Date occurs more than two (2) years after the occurrence of a Change in Control, then the amount payable in cash under this provision shall be payable in substantially equal installments over the one (1) year period following the Executive's "separation from service" within the meaning of Code Section 409A. The number of substantially equal installments shall be equal to the number of regular payroll periods during said one (1) year period, with one installment payable on each such payroll period. In addition, to the extent required in order to comply with Code Section 409A, cash amounts that would otherwise be payable under this Paragraph 6(c) during the six-month period immediately following the Extended Termination Date (and which are not eligible for the exception applicable to payments due to involuntary separation under Treas. Reg. Section 1.409A-1(b)(9)(iii)) shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's "separation from service" within the meaning of Code Section 409A. Further, any taxable welfare benefits provided to Executive pursuant to this Paragraph 6(c) that are not "disability pay" or "death benefits" within the meaning of Treas. Reg. Section 1.409A-1(a)(5) (collectively, the "Applicable Benefits") shall be subject to the following requirements in order to comply with Code Section 409A. The amount of any Applicable Benefits provided during one taxable year shall not affect the amount of the Applicable Benefits provided in any other taxable year, except that with respect to any Applicable Benefits that consist of the reimbursement of expenses referred to in Code Section 105(b), a limitation may be imposed on the amount of such reimbursements over some or all of the Covered Period, as described in Treas. Reg. Section 1.409A-3(i)(1)iv)(B). To the extent that any Applicable Benefits consist of the reimbursement of eligible expenses, such reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred. No Applicable Benefits may be liquidated or exchanged for another benefit. During the period of six (6) months immediately following Executive's separation from service (within the meaning of Code Section 409A), Executive shall be obligated to pay the Company the full cost for any Applicable Benefits that do not constitute health benefits of the type required to be provided under the health continuation coverage requirements of Code Section 4980B, and the Company shall reimburse Executive for any such payments on the first business day that is more than six (6) months after Executive's separation from service, together with interest on such amount from the date of separation from service through the date of payment at the applicable federal rate under Code Section 7872(f)(2)(A)."

4. Maximum Payment Upon Termination. Paragraph 7(b) of the Agreement is hereby amended by adding the following to the end thereof:

"Notwithstanding the foregoing, if the exercise of discretion reserved to the Executive in determining the Notice of Application would violate Code Section 409A, then such discretion shall be eliminated and the amounts payable under Paragraph 6(c) shall be reduced proportionately."

5. Code Section 409A. Paragraph 20 of the Agreement, the existing text of which is redundant of Paragraph 18, shall be replaced with the following:

"Notwithstanding any provision of Paragraph 10 or 14 of the Employment Agreement to the contrary, any legal fees and expenses to be paid by the Company pursuant to Paragraph 10 or 14 shall be subject to the following requirements in order to comply with Code Section 409A. Such legal fees and expenses shall be paid by the Company only to the extent incurred during the Term of the Agreement or for a period of ten (10) years after the Executive's "separation from service" (as defined in Code Section 409A). The Company shall pay such legal fees and expenses no later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, and the Company shall not be obligated to pay any such fees and expenses for which the Executive fails to submit an invoice at least ten (10) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit."

6. Captions. The captions of the various sections of this Amendment are not part of the context of this Amendment, but are only labels to assist in locating those sections, and shall be ignored in construing this Amendment.

7. Construction. This document is an amendment to the Employment Agreement. In the event of any inconsistencies between the provisions of the Employment Agreement and this Amendment, the provisions of this Amendment shall control. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect without change.

EXECUTIVE:

______________________________ Date: ______________________________

Michael P. McMasters

CHESAPEAKE UTILITIES CORPORATION

By:______________________________ Date: ______________________________

Its:______________________________

John R. Schimkaitis

AMENDMENT TO EXECUTIVE EMPLOYMENT AGREEMENT

This Amendment to Executive Employment Agreement (this "Amendment") is made effective as of January 1, 2009, by and between **Chesapeake Utilities Corporation**, a Delaware corporation (the "Company"), and **John R. Schimkaitis** (the "Executive").

Background Information

The parties to this Amendment (the "Parties") entered into an Executive Employment Agreement as of December 29, 2006 (the "Employment Agreement"), regarding the Executive's employment relationship with the Company. The Parties desire to amend the Employment Agreement pursuant to Paragraphs 18 and 20 of the Employment Agreement in order to comply with the final Treasury Regulations issued under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The Employment Agreement, as amended by this Amendment, is hereinafter collectively referred to as the "Agreement."

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2. Expenses. Paragraph 5(g) of the Agreement is hereby amended by adding the following to the end thereof:

"If any reimbursements under this provision are taxable to the Executive, such reimbursements shall be paid on or before the end of the calendar year following the calendar year in which the reimbursable expense was incurred, and the Company shall not be obligated to pay any such reimbursement amount for which Executive fails to submit an invoice or other documented reimbursement request at least 10 business days before the end of the calendar year next following the calendar year in which the expense was incurred. Such expenses shall be reimbursable only to the extent they were incurred during the term of the Agreement. In addition, the amount of such reimbursements that the Company is obligated to pay in any given calendar year shall not affect the amount the Company is obligated to pay in any other calendar year. In addition, Executive may not liquidate or exchange the right to reimbursement of such expenses for any other benefits."

3. Payment Upon Termination During Extended Term. Paragraph 6(c) of the Agreement is hereby amended by adding the following to the end thereof:

"In addition, and notwithstanding the foregoing provisions of this Paragraph 6(c), if the Extended Termination Date occurs more than two (2) years after the occurrence of a Change in Control, then the amount payable in cash under this provision shall be payable in substantially equal installments over the one (1) year period following the Executive's "separation from service" within the meaning of Code Section 409A. The number of substantially equal installments shall be equal to the number of regular payroll periods during said one (1) year period, with one installment payable on each such payroll period. In addition, to the extent required in order to comply with Code Section 409A, cash amounts that would otherwise be payable under this Paragraph 6(c) during the six-month period immediately following the Extended Termination Date (and which are not eligible for the exception applicable to payments due to involuntary separation under Treas. Reg. Section 1.409A-1(b)(9)(iii)) shall instead be paid, with interest on any delayed payment at the applicable federal rate under Code Section 7872(f)(2)(A), on the first business day after the date that is six (6) months following the Executive's "separation from service" within the meaning of Code Section 409A. Further, any taxable welfare benefits provided to Executive pursuant to this Paragraph 6(c) that are not "disability pay" or "death benefits" within the meaning of Treas. Reg. Section 1.409A-1(a)(5) (collectively, the "Applicable Benefits") shall be subject to the following requirements in order to comply with Code Section 409A. The amount of any Applicable Benefits provided during one taxable year shall not affect the amount of the Applicable Benefits provided in any other taxable year, except that with respect to any Applicable Benefits that consist of the reimbursement of expenses referred to in Code Section 105(b), a limitation may be imposed on the amount of such reimbursements over some or all of the Covered Period, as described in Treas. Reg. Section 1.409A-3(i)(1)iv)(B). To the extent that any Applicable Benefits consist of the reimbursement of eligible expenses, such reimbursement must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred. No Applicable Benefits may be liquidated or exchanged for another benefit. During the period of six (6) months immediately following Executive's separation from service (within the meaning of Code Section 409A), Executive shall be obligated to pay the Company the full cost for any Applicable Benefits that do not constitute health benefits of the type required to be provided under the health continuation coverage requirements of Code Section 4980B, and the Company shall reimburse Executive for any such payments on the first business day that is more than six (6) months after Executive's separation from service, together with interest on such amount from the date of separation from service through the date of payment at the applicable federal rate under Code Section 7872(f)(2)(A)."

4. Maximum Payment Upon Termination. Paragraph 7(b) of the Agreement is hereby amended by adding the following to the end thereof:

"Notwithstanding the foregoing, if the exercise of discretion reserved to the Executive in determining the Notice of Application would violate Code Section 409A, then such discretion shall be eliminated and the amounts payable under Paragraph 6(c) shall be reduced proportionately."

5. Code Section 409A. Paragraph 20 of the Agreement, the existing text of which is redundant of Paragraph 18, shall be replaced with the following:

"Notwithstanding any provision of Paragraph 10 or 14 of the Employment Agreement to the contrary, any legal fees and expenses to be paid by the Company pursuant to Paragraph 10 or 14 shall be subject to the following requirements in order to comply with Code Section 409A. Such legal fees and expenses shall be paid by the Company only to the extent incurred during the Term of the Agreement or for a period of ten (10) years after the Executive's "separation from service" (as defined in Code Section 409A). The Company shall pay such legal fees and expenses no later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, and the Company shall not be obligated to pay any such fees and expenses for which the Executive fails to submit an invoice at least ten (10) business days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit."

6. Captions. The captions of the various sections of this Amendment are not part of the context of this Amendment, but are only labels to assist in locating those sections, and shall be ignored in construing this Amendment.

7. Construction. This document is an amendment to the Employment Agreement. In the event of any inconsistencies between the provisions of the Employment Agreement and this Amendment, the provisions of this Amendment shall control. Except as modified by this Amendment, the Employment Agreement shall continue in full force and effect without change.

EXECUTIVE:

______________________________ Date: ______________________________

John R. Schimkaitis

CHESAPEAKE UTILITIES CORPORATION

By:______________________________ Date: ______________________________

Its:______________________________

Exhibit 10.26

PERFORMANCE SHARE AGREEMENT

pursuant to the

CHESAPEAKE UTILITIES CORPORATION
PERFORMANCE INCENTIVE PLAN

On _____________________, 20_____, (the "Grant Date"), Chesapeake Utilities Corporation, a Delaware corporation (the "Company"), has granted to ____________________________ (the "Grantee"), who resides at ______________ _____________________________, a Performance Share Award on the terms and subject to the conditions of this Performance Share Agreement.

Recitals

WHEREAS, the Chesapeake Utilities Corporation Performance Incentive Plan (the "Plan") has been duly adopted by action of the Company's Board of Directors (the "Board") on February 24, 2005, and approved by the Shareholders of the Company at a meeting held on May 5, 2005; and

WHEREAS, the Plan is effective January 1, 2006; and

WHEREAS, the Committee of the Board of Directors of the Company referred to in the Plan (the "Committee") has determined that it is in the best interests of the Company to grant the Performance Share Award described herein pursuant to the Plan; and

WHEREAS, the shares of the Common Stock of the Company ("Shares") that are subject to this Agreement, when added to the other shares of Common Stock that are subject to awards granted under the Plan, do not exceed the total number of shares of Common Stock with respect to which awards are authorized to be granted under the Plan.

Agreement

It is hereby covenanted and agreed by and between the Company and the Grantee as follows:

Section 1. Performance Share Award and Performance Period

The Company hereby grants to the Grantee a Performance Share Award as of the Grant Date. As more fully described herein, the Grantee may earn up to _______________ Shares upon the Company's achievement of the performance criteria set forth in Section 2 (the "Performance Shares") over the performance period from January 1, __________ to December 31, __________ (the "Performance Period"). This Award has been granted pursuant to the Plan; capitalized terms used in this agreement which are not specifically defined herein shall have the meanings ascribed to such terms in the Plan.

Section 2. Performance Criteria and Terms of Share Award

(a) The Committee selected and established in writing performance criteria for the Performance Period, which, if met, may entitle the Grantee to some or all of the Performance Shares under this Award. If this Award is intended by the Committee to comply with the exception from Code Section 162(m) for qualified performance-based compensation for Grantees who are "Covered Employees" as defined in Code Section 162(m), the performance criteria established shall be based on one or more Performance Goals selected by the Committee in writing within 90 days following the first day of the Performance Period (or, if earlier, before 25% of that period has elapsed), and at a time when the outcome relative to the attainment of the performance criteria is not substantially certain. As soon as practicable after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period, the Committee shall determine for purposes of this Agreement the Company's (1) total shareholder return, defined as the cumulative total return to shareholders ("Shareholder Value"), (2) growth in long-term earnings, defined as the growth in total capital expenditures as a percentage of total capitalization ("Growth") and (3) earnings performance, defined as average return on equity ("RoE"), in accordance with procedures established by the Committee. The Shareholder Value, Growth and RoE (each a "Performance Metric" and collectively, the "Performance Metrics") shall be determined by the Committee in accordance with the terms of the Plan and this Agreement based on financial results reported to shareholders in the Company's annual reports and shall be subject to adjustment by the Committee for extraordinary events during the Performance Period, as applicable. Both the Shareholder Value and the Growth Performance Metrics will be compared to those of the peer group consisting of gas utility companies listed in the Edward Jones Natural Gas Distribution Group (the "Peer Group") for the Performance Period and Awards will be determined according to the schedule in subsection (b) below. For the average RoE Performance Metric, the Company's performance will be compared to pre-determined RoE thresholds established by the Committee. At the end of the Performance Period, the Committee shall certify in writing the extent to which the Performance Goals were met during the Performance Period for Awards for Covered Employees. If the Performance Goals for the Performance Period are met, Covered Employees shall be entitled to the Award, subject to the Committee's exercise of discretion to reduce any Award to a Covered Employee based on business objectives established for that Covered Employee or other factors as determined by the Committee in its sole discretion. The Committee shall promptly notify the Grantee of its determination.

(b) The Grantee may earn 50 percent or more of the target award of ____________ Performance Shares (the "Target Award") up to a maximum number of Performance Shares set forth in Section 1 above (the "Maximum Award") based upon achievement of threshold and target levels of performance against the Performance Metrics established for the Performance Period . The Committee shall confirm the level of Award attained for the Performance Period after the Company's independent auditors have certified the Company's financial statements for each fiscal year of the Company in the Performance Period.

(c) Once established, the performance criteria identified above normally shall not be changed during the Performance Period. However, if the Committee determines that external changes or other unanticipated business conditions have materially affected the fairness of the goals, or that a change in the business, operations, corporate structure or capital structure of the Company, or the manner in which it conducts its business, or acquisitions or divestitures of subsidiaries or business units, or other events or circumstances materially affect the performance criteria or render the performance criteria unsuitable, then the Committee may approve appropriate adjustments to the performance criteria (either up or down) during the Performance Period. Notwithstanding the foregoing, no changes shall be made to an Award intended to satisfy the requirements of Code Section 162(m) if such changes would affect the qualification of the Award as performance-based compensation within the meaning of Code Section 162(m).

(d) Performance Shares that are earned by the Grantee pursuant to this Section 2 shall be issued promptly, without payment of consideration by the Grantee, within $2^1/_2$ months of the end of the Performance Period. The Grantee shall have the right to vote the Performance Shares and to receive the dividends distributable with respect to such Shares on and after, but not before, the date on which the Grantee is recorded on the Company's ledger as holder of record of the Performance Shares (the "Issue Date"). If, however, the Grantee receives Shares as part of any dividend or other distribution with respect to the Performance Shares, such Shares shall be treated as if they are Performance Shares, and such Shares shall be subject to all of the terms and conditions imposed by this Section 2. Notwithstanding the foregoing, the Grantee shall be entitled to receive an amount in cash, equivalent to the dividends that would have been paid on the awarded Performance Shares from the Grant Date to the Issue Date for those Performance Shares actually earned by the Grantee during the applicable Performance Period. Such dividend equivalents shall be payable at the time such Performance Shares are issued.

(e) The Performance Shares will not be registered for resale under the Securities Act of 1933 or the laws of any state except when and to the extent determined by the Board pursuant to a resolution. Until a registration statement is filed and becomes effective, however, transfer of the Performance Shares shall require the availability of an exemption from such registration, and prior to the issuance of new certificates, the Company shall be entitled to take such measures as it deems appropriate (including but not limited to obtaining from the Grantee an investment representation letter and/or further legending the new certificates) to ensure that the Performance Shares are not transferred in the absence of such exemption.

(f) In the event of a Change in Control, as defined in the Plan, during the Performance Period, the Grantee shall earn the Maximum Award of Performance Shares set forth in this Section 2, as if all performance criteria were satisfied, without any pro ration based on the proportion of the Performance Period that has expired as of the date of such Change in Control.

(g) If, during the Performance Period, the Grantee is separated from employment, Performance Shares shall be deemed earned or forfeited as follows:

(1) Upon voluntary termination by the Grantee or termination by the Company for failure of job performance or other just cause as determined by the Committee, all unearned Performance Shares shall be forfeited immediately;

(2) If the Grantee separates from employment by reason of death or total and permanent disability (as determined by the Committee), the number of Performance Shares that would otherwise have been earned at the end of the Performance Period shall be reduced by pro rating such Performance Shares based on the proportion of the Performance Period during which the Grantee was employed by the Company, unless the Committee determines that the Performance Shares shall not be so reduced;

(3) Upon retirement by the Grantee at age 55 or thereafter, all unearned Performance Shares shall be forfeited immediately.

(h) The Grantee shall be solely responsible for any federal, state and local taxes of any kind imposed in connection with the vesting or delivery of the Performance Shares. Prior to the transfer of any Performance Shares to the Grantee, the Grantee shall remit to the Company an amount sufficient to satisfy any federal, state, local and other withholding tax requirements. The Grantee may elect to have all or part of any withholding tax obligation satisfied by having the Company withhold Shares otherwise deliverable to the Grantee as Performance Shares, unless the Committee determines otherwise by resolution. If the Grantee fails to make such payments or election, the Company and its subsidiaries shall, to the extent permitted by law, have the right to deduct from any payments of any kind otherwise due to the Grantee any taxes required by law to be withheld with respect to the Performance Shares. In the case of any amounts withheld for taxes pursuant to this provision in the form of Shares, the amount withheld shall not exceed the minimum required by applicable law and regulations.

(i) Notwithstanding any other provision of this Agreement, if any payment or distribution (a "Payment") by the Company or any other person or entity to or for the benefit of the Grantee is determined to be an "excess parachute payment" (within the meaning of Code Section 280G(b)(1) or any successor provision of similar effect), whether paid or payable or distributed or distributable pursuant to this Agreement or otherwise, then the Grantee's benefits under this Agreement may, unless the Grantee elects otherwise pursuant to his employment agreement, be reduced by the amount necessary so that the Grantee's total "parachute payment" as defined in Code Section 280G(b)(2)(A) under this and all other agreements will be $1.00 less than the amount that would be a "parachute payment". The payment of any "excess parachute payment" pursuant to this paragraph shall also comply with the terms of the Grantee's employment agreement.

Section 3. Additional Conditions to Issuance of Shares

Each transfer of Performance Shares shall be subject to the condition that if at any time the Committee shall determine, in its sole discretion, that it is necessary or desirable as a condition of, or in connection with, transfer of Performance Shares (i) to satisfy withholding tax or other withholding liabilities, (ii) to effect the listing, registration or qualification on any securities exchange or under any state or federal law of any Shares deliverable in connection with such exercise, or (iii) to obtain the consent or approval of any regulatory body, then in any such event such transfer shall not be effective unless such withholding, listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Company.

Section 4. Adjustment of Shares

(a) If the Company shall become involved in a merger, consolidation or other reorganization, whether or not the Company is the surviving corporation, any right to earn Performance Shares shall be deemed a right to earn or to elect to receive the consideration into which the Shares represented by the Performance Shares would have been converted under the terms of the merger, consolidation or other reorganization. If the Company is not the surviving corporation, the surviving corporation (the "Successor") shall succeed to the rights and obligations of the Company under this Agreement.

(b) If any subdivision or combination of Shares or any stock dividend, capital reorganization or recapitalization occurs after the adoption of the Plan, the Committee shall make such proportionate adjustments as are appropriate to the number of Performance Shares to be earned in order to prevent the dilution or enlargement of the rights of the Grantee.

Section 5. No Right to Employment

Nothing contained in this Agreement shall be deemed by implication or otherwise to confer upon the Grantee any right to continued employment by the Company or any affiliate of the Company.

Section 6. Notice

Any notice to be given hereunder by the Grantee shall be sent by mail addressed to Chesapeake Utilities Corporation, 909 Silver Lake Boulevard, Dover, Delaware 19904, for the attention of the Committee, c/o the Corporate Secretary, and any notice by the Company to the Grantee shall be sent by mail addressed to the Grantee at the address of the Grantee shown on the first page hereof. Either party may, by notice given to the other in accordance with the provisions of this Section, change the address to which subsequent notices shall be sent.

Section 7. Beneficiary Designation

Grantee may designate a beneficiary to receive any Performance Shares to which Grantee is entitled which vest as a result of Grantee's death. Grantee acknowledges that the Company may exercise all rights under this Agreement and the Plan against Grantee and Grantee's estate, heirs, lineal descendants and personal representatives and shall not be limited to exercising its rights against Grantee's beneficiary.

Section 8. Assumption of Risk

It is expressly understood and agreed that the Grantee assumes all risks incident to any change hereafter in the applicable laws or regulations or incident to any change in the market value of the Performance Shares.

Section 9. Terms of Plan

This Agreement is entered into pursuant to the Plan (a copy of which has been delivered to the Grantee). This Agreement is subject to all of the terms and provisions of the Plan, which are incorporated into this Agreement by reference, and the actions taken by the Committee pursuant to the Plan. In the event of a conflict between this Agreement and the Plan, the provisions of the Plan shall govern. All determinations by the Committee shall be in its sole discretion and shall be binding on the Company and the Grantee.

Section 10. Governing Law; Amendment

This Agreement shall be governed by, and shall be construed and administered in accordance with, the laws of the State of Delaware (without regard to its choice of law rules) and the requirements of any applicable federal law. This Agreement may be modified or amended only by a writing signed by the parties hereto.

Section 11. Action by the Committee

The parties agree that the interpretation of this Agreement shall rest exclusively and completely within the sole discretion of the Committee. The parties agree to be bound by the decisions of the Committee with regard to the interpretation of this Agreement and with regard to any and all matters set forth in this Agreement. The Committee may delegate its functions under this Agreement to an officer of the Company designated by the Committee (hereinafter the “Designee”). In fulfilling its responsibilities hereunder, the Committee or its Designee may rely upon documents, written statements of the parties or such other material as the Committee or its Designee deems appropriate. The parties agree that there is no right to be heard or to appear before the Committee or its Designee and that any decision of the Committee or its Designee relating to this Agreement shall be final and binding unless such decision is arbitrary and capricious.

Section 12. Terms of Agreement

This Agreement shall remain in full force and effect and shall be binding on the parties hereto for so long as any Performance Shares issued to the Grantee under this Agreement continue to be held by the Grantee.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its corporate name, and the Grantee has executed the same in evidence of the Grantee’s acceptance hereof, upon the terms and conditions herein set forth, as of the day and year first above written.

CHESAPEAKE UTILITIES CORPORATION

By: ___________________________________

Its: ________________________________

Grantee:

____

Exhibit 10.27

CHESAPEAKE UTILITIES CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

(As amended and restated, effective January 1, 2009)

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CHESAPEAKE UTILITIES CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

ARTICLE I

ESTABLISHMENT AND PURPOSE

(a) The Employer established the Chesapeake Utilities Corporation Executive Excess Retirement Benefit Plan (the "Plan") effective January 1, 2000. The purpose of the Plan is to provide benefits that would be provided under the Chesapeake Utilities Corporation Pension Plan (the "Pension Plan") but for certain limitations on the benefits that may be provided under a tax-qualified plan within the meaning of Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"). The Plan consists of the Plan document as set forth herein and any amendments thereto.

(b) The Employer adopted a new retirement program effective January 1, 1999 (the "New Retirement Program"). Under the New Retirement Program, participation in the Pension Plan was frozen as of December 31, 1998. As part of the New Retirement Program, active participants in the Pension Plan as of that date elected, among other things, either to continue accruing benefits under the Pension Plan on and after January 1, 1999, or to cease accruing benefits under the Pension Plan as of December 31, 1998.

(c) Effective December 31, 1998, the benefits under this Plan of an Executive who is described as a "Group A Participant" in Schedule A shall not increase or decrease after December 31, 1998. Effective December 31, 2004, the benefits of an Executive who is described as a "Group B Participant" in Schedule A shall not increase or decrease under this Plan after December 31, 2004.

(d) The purpose of this amendment and restatement of the Plan is to comply with the requirements of Code Section 409A and final regulations and other rulings thereunder, and is effective with respect to the Group B Participants only. Except as otherwise specifically provided herein, Group A Participants and their benefits under the Plan remain subject to the terms of the Plan as in effect on January 1, 2000. For the period from January 1, 2005 when Code Section 409A became effective to January 1, 2009, the Plan has been operated in good faith compliance with such Code Section and applicable transition rules thereunder. As part of this amendment and restatement, the Employer also renames the Plan as the Chesapeake Utilities Corporation Supplemental Executive Retirement Plan.

ARTICLE II

DEFINITIONS

The following words and phrases shall have the following meanings when used in this Plan. In addition, except for the definitions of "Committee," "Employer," and "Plan," which are set forth below, the definitions in Article I of the Pension Plan as in effect on January 1, 2005, shall apply for the purposes of this Plan.

2.1 Beneficiary means a person who is entitled to receive a benefit as a beneficiary (including a contingent beneficiary) or Alternate Payee with respect to an Executive pursuant to the provisions of the Pension Plan.

2.2 Change in Control shall be deemed to occur when and only when the first of the following events occurs:

(a) 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

(b) 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

(c) 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

(d) 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

(e) the Company's 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

(f) 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 (2/3rds) of the directors then still in office who were directors at the beginning of the period; or

(g) 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 an Executive by reason of any event involving a transaction in which (i) the Executive or a group of persons or entities with which the Executive acts in concert, acquires, directly or indirectly, more than 30 percent of the common stock or the business or assets of the Company, (ii) any event involving or arising out of a proceeding under Title 1l 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. For purposes of this Section 2.2, "Company" shall mean the Employer or a Related Company.

2.3 Committee means the committee designated in Section 6.1 to administer the Plan.

2.4 Employer means Chesapeake Utilities Corporation and any subsidiary or affiliated corporation of the foregoing that, with the consent of the Board, adopts the Plan; or any corporation with which one or more of the foregoing might be consolidated by merger, by purchase of assets, or by dissolution of a subsidiary corporation, that adopts the Plan; or any corporate successor of one or more of the foregoing that adopts the Plan.

2.5 Excess Benefit means the excess (if any) of an Executive's or Beneficiary's Unrestricted Benefit over the Executive's or Beneficiary's Maximum Benefit.

2.6 Executive means a person who is entitled to receive a benefit as a Member pursuant to the provisions of the Pension Plan, and who has an Excess Benefit under the Plan. Executives (and Beneficiaries) are further defined as either a Group A Participant or a Group B Participant.

2.7 Maximum Benefit means the benefit payable to an Executive or his Beneficiary during any calendar month by the Pension Plan.

2.8 Pension Plan means the Chesapeake Utilities Corporation Pension Plan, as amended from time to time.

2.9 Plan means the Chesapeake Utilities Corporation Supplemental Executive Retirement Plan, as set forth herein and as amended from time to time.

2.10 Plan Year means the calendar year.

2.11 Related Company means the Employer, any Affiliated Company, and any other employer the majority interest in which is held, directly or indirectly, by the Employer or an Affiliated Company.

2.12 Unrestricted Benefit means the benefit that would be payable to an Executive or his Beneficiary during any calendar month by the Pension Plan in the form elected by the Participant under the Pension Plan if Code Sections 401(a)(17) and 415, and the provisions of the Pension Plan that implement them, did not apply to the Executive and his Beneficiary.

ARTICLE III

PAYMENT OF EXCESS BENEFITS

3.1 Group A Participants. Subject to the provisions of Article IV, an Executive or Beneficiary who is a Group A Participant, shall receive a monthly payment for each month for which the Executive or Beneficiary is entitled to receive a benefit under the Pension Plan, in an amount equal to the Executive's or Beneficiary's Excess Benefit.

Notwithstanding the foregoing, if the value of the immediate lump-sum payment that is the Actuarial Equivalent (within the meaning of Section 1.2 of the Pension Plan) of the Executive's (and his Beneficiary's) Excess Benefit on the date as of which the Executive's employment with the Employer and any Affiliated Company terminates does not exceed $3,500, the Committee shall direct that such lump-sum payment be made to the Executive as soon as practicable after that date. Similarly, if the Executive dies before commencing receipt of benefits under the Plan, and the value of the immediate lump-sum payment that is the Actuarial Equivalent (within the meaning of Section 1.2 of the Pension Plan) of his Beneficiary's Excess Benefit on the date of his death does not exceed $3,500, the Committee shall direct that such lump-sum payment be made to his Beneficiary as soon as practicable after that date.

3.2 Group B Participants. Subject to the provisions of Article IV, an Executive or Beneficiary who is a Group B Participant, shall make an election no later than December 31, 2008, regarding the form and timing of the payment of the Executive's or Beneficiary's Excess Benefit. Such election shall be in writing, in a form acceptable to the Committee, and shall specify such information as required by the Committee and shall be irrevocable once made. If a Group B Participant fails to make an election of a time and form of payment, his benefit shall be payable at age 65 (Normal Retirement Age) in the form of a single life annuity for the Group B Participant's life (the default payment election).

(a) Time of Payment. A Group B Participant may elect to receive his Excess Benefit from the Plan upon: (i) the later of "Separation from Service" (as defined in Treasury Regulations Section 1.409A-1(h)(1) (without the application of any elective changes to such definition) or attainment of age 55 (Early Retirement Age under the Pension Plan); or (ii) upon attainment of Normal Retirement Age (age 65), without regard to whether or not a Separation from Service has yet occurred. Such payment shall be made, or commence to be made, within 90 days of the selected distribution date. If, however, a Group B Participant who is a "specified employee" (as defined in Code Section 409A) elects to receive payment upon Separation from Service, no amount shall be distributed earlier than the first business day that is at least six months after the specified employee's Separation from Service.

(b) Form of Payment. A Group B Participant may elect to receive his Excess Benefit from the Plan in one of the following forms of payment, each of which shall be the Actuarial Equivalent of payment in the form of a single life annuity for the life of the Group B Participant:

(i) a life annuity, ceasing payments upon the death of the Group B Participant;

(ii) a Qualified Joint and Survivor Annuity payable for the life of the Group B Participant with a survivor annuity equal to 50% of the amount payable during the joint annuity period continuing to his surviving spouse, if applicable;

(iii) an annuity payable for the life of the Group B Participant with payments guaranteed for a minimum of 10 years to the Group B Participant and, if the Group B Participant dies before 10 years of payments, such amount continuing to a Beneficiary until 10 years of payments have been made;

(iv) a joint and survivor annuity payable for the life of the Group B Participant and continued upon his death for the life of his surviving designated beneficiary, with the designated beneficiary's benefit to be 50 percent, 66 2/3 percent or 100 percent (as elected by the Group B Participant) of the benefit paid or payable for each month to the Group B Participant during his lifetime; or

(vi) a single, lump sum that is the "Present Value" of the single life annuity benefit. For this purpose, "Present Value" means the lump sum actuarial equivalent of the Group B Participant's Excess Benefit calculated by using the interest rate and mortality table defined as follows: (I) The interest rate shall be based on the interest rate used to calculate lump sum distributions from the Pension Plan, which is the interest rate under Code Section 417(e)(3) for the month of November preceding the calendar year in which the payment date falls; and (II) The mortality table shall be the mortality table prescribed by the Secretary of the Treasury under the authority of Section 417(e)(3) of the Code based upon the prevailing commissioners' standard table used to determine the minimum present value of a participant's benefit in the Pension Plan on the date as of which the Present Value is being determined. As of the effective date of this amendment and restatement of the Plan, this mortality table for 2008 is the table prescribed by Rev. Rul. 2007-67, which shall be updated annually thereafter by the Internal Revenue Service.

(c) Death Benefit. The death benefit, if any, payable to a Group B Participant's Beneficiary shall be determined based on the form of payment elected by such Group B Participant and, if no form is elected, the default payment shall be a single life annuity under which no death benefit shall be payable. If a Group B Participant dies after benefit payments have commenced, the Beneficiary of the deceased Group B Participant shall receive the remaining payments due under the form of payment selected, if any. If a Group B Participant dies before benefit payments have commenced, the amount payable to the Beneficiary of the Group B Participant shall be based on the method of payment elected, with a single life annuity providing no death benefit, a joint and survivor or Qualified Joint and Survivor Annuity providing the stated level of survivor annuity as though the Group B Participant had Separated from Service on the date of his death (or as of the actual date of Separation from Service if earlier), and a lump sum payment being payable in full to the Beneficiary in lieu of the Group B Participant. In the case of a Group B Participant who dies before benefit payments have commenced, the death benefit shall be paid, or commence to be paid, as applicable, within 90 days after the date of death and shall be the Actuarial Equivalent of the benefit otherwise payable at the selected payment commencement date if the Group B Participant's death precedes when benefits otherwise would have commenced. Notwithstanding the foregoing, if the Group B Participant was at least age 55 at his death, the factors set forth in Section 5.3 of the Pension Plan (as of December 31, 2004) shall be used to determine the reduction in the amount payable due to death prior to the scheduled distribution date, if any.

ARTICLE IV

TERMINATION OF EMPLOYMENT

4.1 Termination for Cause. No payments shall be made under the Plan to or in respect of an Executive whose employment is terminated as a result of conduct determined by the Committee in its sole discretion to have had an adverse effect on the Employer or a Related Company, provided that:

(a) an Executive's employment shall not be deemed to have terminated as a result of conduct that had an adverse effect on the Employer or a Related Company unless the Executive: (i) engaged in unlawful acts intended to result in the substantial personal enrichment of the Executive at the expense of the Employer or a Related Company; or (ii) engaged (except by reason of incapacity due to illness or injury) in a material violation of his responsibilities to the Employer and the Related Companies that resulted in a material injury to the Employer or a Related Company; and

(b) the Executive's employment shall not be deemed to have terminated as a result of conduct that had an adverse effect on the Employer or a Related Company for purposes of subsection (a) of this Section 4.1 unless and until there has been delivered to him a Notice of Termination, consisting of a copy of a resolution duly adopted by the affirmative vote of not less than three-fourths (3/4ths) of the entire membership of the Board at a duly held meeting of the Board (with reasonable notice to the Executive and an opportunity for the Executive, together counsel, to be heard before the Board), finding that the Executive has engaged in the conduct set forth above in this Section 4.1 and specifying the particulars thereof in detail. The Board may not delegate or assign its duties under this Section 4.1.

4.2 Conduct after Termination.

(a) No additional payments shall be made under the Plan to or in respect of an Executive who, before the second anniversary of the termination of his employment, renders services for any organization or engages directly or indirectly in any business that, in the judgment of the Committee, competes directly with, or that is otherwise prejudicial to or conflicts with the interests of, the Employer or a Related Company. The Executive may be required to certify to the above condition in a format acceptable to the Committee from time to time before receiving any subsequent payments under the Plan. The Executive shall be free, however, to purchase, as an investment or otherwise, stock or other securities of such organizations so long as they are listed upon a recognized securities exchange or traded over-the-counter, and such investment does not represent a substantial investment to the Executive or a greater than 10 percent equity interest in the organization. The Committee shall direct that any remaining payments to or in respect of the Executive be terminated and forfeited upon a determination by the Committee that the Executive has engaged in conduct that requires the forfeiture of payments to or in respect of the Executive pursuant to this Section 4.2. Further, the Committee may pursue the return to the Employer of any payments made under the Plan after the commencement of such conduct, together with interest at a rate determined by the Committee in its sole discretion.

(b) After a Change in Control, subsection (a) of this Section 4.2 shall no longer apply to any Executive unless, before the Change in Control, the Committee has determined that the Executive has engaged in conduct that requires the forfeiture of payments to or in respect of the Executive pursuant to that subsection.

ARTICLE V

NATURE OF INTEREST OF EXECUTIVE

5.1 In General. Participation in this Plan shall not create, in favor of any Executive or Beneficiary, any interest in or lien against any of the assets of the Employer. An Executive's or Beneficiary's rights to benefits payable under the Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance. Except to the extent required by Section 5.2, nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Employer and an Executive or any other person, and the promise of the Employer to pay benefits hereunder shall at all times remain unfunded as to the Executive or Beneficiary, whose rights hereunder shall be limited to those of a general and unsecured creditor of the Employer.

5.2 Funding of Plan Under Certain Circumstances. In the event of a Change in Control, the Committee shall fund fully all benefits accrued under the Plan through that date through the purchase of fully-paid annuity or life insurance contracts or deposits to a "rabbi" trust, as described below. In addition, the Committee may fund the benefits accrued under the Plan, in whole or in part, in the same manner in its sole discretion under any other circumstances. The Committee shall cause any annuity or life insurance contracts purchased pursuant to this Section 5.2 and any other assets set aside or otherwise accumulated pursuant to this Section 5.2 to be held by a "rabbi" trust that conforms to the standards prescribed by Internal Revenue Service Revenue Procedures 92-64, as amended from time to time, or any successor thereto. Any annuity or life insurance contracts purchased pursuant to this Section 5.2 and any other assets set aside or otherwise accumulated pursuant to this Section 5.2 shall not be assets of the Plan. Executives and Beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any such contracts or other assets, and such contracts or other assets shall be subject to the claims of the Employer's general creditors in the event of the insolvency of the Employer.

ARTICLE VI

ADMINISTRATION

6.1 Committee. The Plan shall be administered by the Employee Benefits Committee of Chesapeake Utilities Corporation. The Committee shall serve at the pleasure of the Board. The Committee may allocate its responsibilities for the administration of the Plan among its members or among any subcommittee(s) it may appoint and may designate persons other than its members to carry out its responsibilities under the Plan.

6.2 Expenses. The expenses incident to the operation of the Plan, including the compensation of attorneys, advisors, actuaries, and such other persons providing technical and clerical assistance as may be required, shall be paid directly by the Employer.

6.3 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 discretionary powers and duties:

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

(b) to interpret the Plan and to decide any and all matters arising hereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions; provided that all such interpretations and decisions shall be applied in a uniform and non-discriminatory manner to all persons similarly situated;

(c) to compute the amount of benefits that shall be payable to any Executive, former Executive, or Beneficiary in accordance with the provisions of the Plan, and, in the event that the Committee determines that excessive benefits have been paid to any person, the Committee may suspend payment of future benefits to such person or his Beneficiary or reduce the amount of such future benefits until the excessive benefits and any interest thereon determined by the Committee have been recovered;

(d) to appoint other persons to carry out such ministerial responsibilities under the Plan as it may determine; and

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

6.4 Finality. Subject to the provisions of Section 6.5, determinations by the Committee and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan shall be final and binding for all purposes and upon all interested persons, their heirs, and personal representatives.

6.5 Benefit Claims Procedure. A claim for a benefit under the Plan by any person shall be filed in the manner and governed by the procedures set forth in Section 12.13 of the Pension P1an.

ARTICLE VII

AMENDMENTS

Chesapeake Utilities Corporation reserves the right to amend the Plan, retroactively or prospectively, at any time; provided that no such amendment shall result in the reduction or forfeiture of benefits already accrued under the Plan (including, without limitation, the right to the funding of those benefits in the event of a Change in Control). The right to amend the Plan shall be exercised by the Board pursuant to a written resolution adopted in accordance with the by-laws of the Employer; provided that the Committee may amend the Plan to the extent necessary to comply with the requirements of law or the purpose of the Plan as set forth in Article I. The Committee shall have the right by written resolution to amend the Plan from time to time, for the purpose of meeting the requirements of Code Section 409A.

ARTICLE VIII

MISCELLANEOUS

8.1 Participation by Affiliated Company. Subject to the consent of the Committee, an Affiliated Company was permitted to become an Employer under the Plan by delivering to the Committee a resolution of its board of directors approving such action. With the consent of the Committee, such Affiliated Company became an Employer as of an effective date approved by the Committee and is subject to the provisions of the Plan. No new participating Affiliated Companies shall be permitted to join the Plan after December 31, 2008.

8.2 Incapacity. If the Committee determines that any person entitled to benefits hereunder is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, sibling, or other party deemed by the Committee to have incurred expenses for such person.

8.3 Required Information. Any person eligible to receive benefits hereunder shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient grounds for delay in the payment of any benefits that may be due under the Plan until such information or proof is received by the Committee. If any person claiming benefits under the Plan makes a false statement that is material to such person’s claim for benefits, the Committee may offset against future payments any amount paid to such person to which such person was not entitled under the provisions of the Plan.

8.4 Inability to Locate Executives. Each Executive and each Beneficiary entitled to receive a benefit under the Plan shall keep the Committee advised of his current address. If the Committee is unable to locate an Executive or Beneficiary to whom a benefit is payable under the Plan for a period of thirty-six (36) months, commencing with the first day of the month as of which such benefit becomes payable, the total amount payable to such Executive or Beneficiary shall be forfeited.

8.5 No Right to Employment. Nothing herein contained shall be deemed to give any employee the right to be retained in the service of the Employer or the Affiliated Companies or to interfere with the right of the Employer and the Affiliated Companies to discharge any employee at any time without regard to the effect that such discharge might have upon the employee under the Plan.

8.6 Withholding Taxes. The Committee may make any appropriate arrangements for the deduction of any taxes required to be withheld by any government or government agency, from all amounts provided under the Plan or from cash compensation or other sources if the amounts provided under the Plan are subject to tax before they are paid. The Executive 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.

In addition to the foregoing and in accordance with Code Section 409A and the regulations issued thereunder, the Plan shall permit the withholding from any payment of any amounts necessary to (a) satisfy federal and applicable state or city employment tax withholding obligations that arise under the Plan prior to the date that payment may otherwise be made under the Plan and/or (b) satisfy the excise tax or underpayment penalties owed under Code Section 409A in the event of a violation of Code Section 409A under the Plan.

8.7 Gender and Number. In order to shorten and to improve the understandability of the Plan document by eliminating the repeated usage of such phrases as “his or her,” any masculine terminology herein shall also include the feminine and neuter, except when otherwise indicated by the context.

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

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

8.10 Governing Law. The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Delaware, except to the extent that such laws are preempted by Federal law.

8.11 Effective Date. The Plan, as hereby amended and restated, shall be effective as of January 1, 2009.

Chesapeake Utilities Corporation

By: ______________________________

Its: ______________________________

Date: ______________________________

SCHEDULE A — Group A and B Participants

GROUP A PARTICIPANTS:

Ralph Adkins

GROUP B PARTICIPANTS:

Mike McMasters
John Schimkaitis
Steve Thompson

Exhibit 10.28

CHESAPEAKE UTILITIES CORPORATION

SUPPLEMENTAL EXECUTIVE RETIREMENT

SAVINGS PLAN

Amended and Restated as of January 1, 2009

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SECTION 1. ESTABLISHMENT AND PURPOSE

1.01. Establishment.

Effective March 1, 1999, the Company established for the benefit of certain Eligible Employees an unfunded plan of deferred compensation known as the "Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan."

1.02. Purpose.

The Plan is an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management and highly compensated employees. The Plan permits Eligible Employees to defer receipt of a portion of their Compensation earned above an amount or after a date selected by the Eligible Employee before the start of each Plan Year until their Separation from Service with the Company and its Affiliates or until such other date specified in accordance with the terms of the Plan.

1.03. Effective Date.

The Plan, as hereby amended and restated, is intended to meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and is effective with respect to amounts that were not deferred and vested (within the meaning of Section 409A of the Code) before January 1, 2005, and any earnings on such amounts. Except as otherwise specifically provided herein, amounts deferred and vested (within the meaning of Section 409A of the Code) before January 1, 2005 (and earnings on such amounts) are not affected by this amendment and restatement of the Plan, and remain subject to the terms of the March 1, 1999 Plan restatement, which are set forth in Appendix A to this January 1, 2009, amendment and restatement. For recordkeeping purposes, the Company will establish separate accounts for each Participant for amounts deferred and vested before January 1, 2005 ("Grandfathered Amounts"), and amounts deferred and vested on or after that date ("409A Amounts"). All amounts that are subject to Code Section 409A for the period from January 1, 2005 through December 31, 2008, shall be subject to the January 1, 2005 amendment and restatement of the Plan and to a good faith interpretation of Code Section 409A, including the use of any applicable transition rules in effect during such period. From and after January 1, 2009, the terms of this amended and restated Plan document shall govern all amounts that are subject to Code Section 409A.

SECTION 2. DEFINITIONS AND CONSTRUCTION

2.01. Definitions.

The following words and phrases as used in the Plan have the following meanings:

(a) **"Account"** means the bookkeeping account established for each Participant under Section 4. Each Account shall include an Employer Match Subaccount and a Participant Subaccount. Additional subaccounts shall be maintained as necessary for the administration of the Plan.

(b) **"Affiliate"** means any corporation included with Chesapeake Utilities Corporation in a "controlled group of corporations," as defined in Code Section 414(b), or an unincorporated business included with Chesapeake Utilities Corporation in a group of trades or business under "common control," as defined by regulations prescribed by the Secretary of the Treasury under Code Section 414(c). Participating Affiliates that cease to be a member of the same controlled group as Chesapeake Utilities Corporation within the meaning of Code Sections 414(b) and (c) are no longer eligible to participate in the Plan effective as of the date that they cease to qualify as a controlled group member. Participants of such an employer shall no longer be eligible to participate effective as of the date that their employer becomes ineligible.

(c) **"Beneficiary"** means the person or persons (including a contingent beneficiary except where the context indicates otherwise) designated by a Participant pursuant to Section 9.02 to receive death benefits under the Plan.

(d) **"Board**" means the Board of Directors of the Company.

(e) **"Change in Control"** means the first of the following events to occur:

(1) Any one person, or group of owners of another corporation who acting together through a merger, consolidation, purchase, acquisition of stock or the like (a "group"), acquires ownership of stock of the Company (or a majority-controlled subsidiary of the Company) that, together with the stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if such person or group is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the corporation before this transfer of the Company's stock, the acquisition of additional stock by the same person or persons shall not be considered to cause a Change in Control of the Company; or

(2) Any one person or group (as described in Section 2.01(e)(1), above) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company (or a majority-owned subsidiary of the Company) possessing 35 percent or more of the total voting power of the stock of the Company where such person or group is not merely acquiring additional control of the Company; or

(3) A majority of members of the Company's Board (other than the Board of a majority-controlled subsidiary of the Company) is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's Board prior to the date of the appointment or election; or

(4) Any one person or group (as described in 2.01(e)(1), above) acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or group) assets from the Company (or a majority-controlled subsidiary of the Company) that have a total gross fair market value equal to or more than 40 percent of the total fair market value of all assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets. A transfer of assets by the Company will not result in a Change in Control under this Section 2.01(e)(4), if the assets are transferred to:

(A) A shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(B) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company immediately after the transfer of assets;

(C) A person, or more than one person acting as a group (as described in 2.01(e)(1), above), that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or

(D) An entity, at least 50 percent of the total value or voting power of which is owned directly or indirectly, by a person described in Section 2.01(e)(4)(C), above.

However, no Change in Control shall be deemed to have occurred with respect to a Participant by reason of (i) any event involving a transaction in which 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 or 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.

The term "Change in Control" is intended to comply with Section 409A of the Code and shall be interpreted such that a Change in Control (1) shall occur for purposes of the Plan in any circumstance that would constitute a "Change in Control Event" (within the meaning of Treasury Regulations under Code Section 409A) and (2) shall not occur for purposes of the Plan in any circumstance that would not constitute such a Change in Control Event.

(f) **"Code"** means the Internal Revenue Code of 1986, as amended from time to time.

(g) **"Committee"** means the Employee Benefits Committee of the Company or such other committee as may be appointed by the Board to administer the Plan.

(h) **"Company"** means Chesapeake Utilities Corporation, a Delaware corporation, and any Affiliate that may be authorized by the Compensation Committee and by its own board of directors to participate in the Plan with respect to its employees.

(i) **"Compensation"** means an employee's compensation as determined for purposes of the Savings Plan, plus amounts deferred hereunder, except that any dollar limit imposed on compensation under the Savings Plan shall be disregarded under the Plan.

(j) **"Compensation Committee"** means the Compensation Committee of the Board.

(k) **"Disabled"** means a medically determinable physical or mental impairment that can be expected to result in death or last for a continuous period of at least 12 months; and the impairment either (1) prevents the Participant from engaging in any substantial gainful activity, or (2) entitles the Participant to receive income replacement benefits for at least 3 months under an accident or health plan sponsored by the Company.

(l) **"Eligible Employee"** means an employee of the Company who is designated by the Compensation Committee, in its sole discretion, to be eligible to participate in the Plan and who is among a select group of management or highly compensated employees (within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA).

(m) **"Employer Match"** means the amount accrued in accordance with Section 4.03 with respect to a Participant's Salary Reduction Contributions and Excess Contributions, based on the rate or rates of Matching Contributions under the Savings Plan.

(n) **"Employer Match Subaccount"** means the bookkeeping account to which the Employer Match on behalf of a Participant and interest are credited pursuant to Section 4.

(o) **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended.

(p) **"Excess Contribution"** means that portion, if any, of the Compensation earned above a selected dollar amount or after a fixed date during the year selected by the Participant pursuant to Section 3, which the Participant elects to have deferred to the Plan.

(q) **"Excessive Benefits"** means an amount credited to a Participant's Account or paid on a Participant's behalf in excess of the amount that properly should have been credited to the Participant's Account or paid on the Participant's behalf.

(r) **"Limitations"** mean

(1) the limitation on contributions to defined contribution plans under Sections 401(k), 401(m), 402(g), 414(v) and 415(c) of the Code; and

(2) the limitations imposed by Sections 401(a)(4), 401(a)(17), and 415(e) of the Code and by any other provision of the Code to the extent that such provision limits the amount of Salary Reduction Contributions and Matching Contributions that otherwise would be made to the Savings Plan.

(s) **“Matching Contributions”** mean the contributions to the Savings Plan made by the Company as matching contributions for salary deferrals under the Savings Plan, as it may be amended from time to time.

(t) **“Participant”** means an Eligible Employee who becomes a participant in the Plan in accordance with Section 3.01 and whose Account has a positive balance.

(u) **“Participant Subaccount”** means the bookkeeping account to which the Excess Contributions of a Participant and interest are credited pursuant to Section 4.

(v) **“Performance-Based”** means a bonus or other payment of Compensation for which the amount of the payment or the entitlement thereto is contingent on the satisfaction of organizational or individual performance criteria relating to a performance period of at least 12 consecutive months. The organizational or individual performance criteria shall be established in writing no later than 90 days after the beginning of the period of service to which the criteria relate, and the outcome must be substantially uncertain at the time the criteria are established. Notwithstanding the above, a Performance-Based Bonus may be based on subjective performance criteria, provided that:

(1) The subjective performance criteria are bona fide and relate to the performance of the Participant, a group of service providers that includes the Participant, or a business unit for which the Participant provides services (which may include the entire organization); and

(2) the determination that any subjective performance criteria have been met is not to be made by the Participant or a family member of the Participant (as defined in Code Section 267(c)(4) applied as if the family of an individual includes the spouse of any member of the family), or a person under the effective control of the Participant or such a family member, and no amount of the Compensation of the person making such determination is effectively controlled in whole or in part by the Participant or such a family member.

(w) **“Plan”** means the “Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan” as set forth herein and as amended from time to time.

(x) **“Plan Year”** means the calendar year.

(y) **“Salary Reduction Contribution”** means that portion of his or her Compensation that a Participant elects to have deferred and contributed by the Company to the Savings Plan without violating the Limitations.

(z) **“Savings Plan”** means the Chesapeake Utilities Corporation Retirement Savings Plan.

(aa) **“Separation from Service”** means separation from service from the Company and its Affiliates within the meaning of Section 409A of the Code. Whether a termination of employment that is a separation from service has occurred is determined based on whether the facts and circumstances indicate that the Company and the Eligible Employee reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Eligible Employee would perform after such date (as an employee or independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or the full period in which the Eligible Employee provided services to the Company if the Eligible Employee has been providing services for less than 36 months). An Eligible Employee will not be deemed to have experienced a Separation from Service if such Eligible Employee is on military leave, sick leave, or other bona fide leave of absence, to the extent such leave does not exceed a period of six months or, if longer, such longer period of time during which a right to re-employment is protected by either statute or contract. If the period of leave exceeds six months and the individual does not retain a right to re-employment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such six-month period. If an Eligible Employee provides services both as an employee and as a member of the Board, the services provided as a Director are generally not taken into account in determining whether the Eligible Employee has a Separation from Service as an employee for purposes of the Plan, in accordance with final regulations under Code Section 409A.

(bb) **“Valuation Date”** means the last business day of each calendar month.

2.02. Construction.

For purposes of the Plan, unless the contrary is clearly indicated by the context,

(a) the use of the masculine gender shall also include within its meaning the feminine and vice versa,

(b) the use of the singular shall also include within its meaning the plural and vice versa, and

(c) the word “include” shall mean to include without limitation.

SECTION 3. PARTICIPATION

3.01. Election of Benefits.

An Eligible Employee shall become a Participant in the Plan by electing to participate in the Plan in accordance with Section 3.02.

3.02. Election Requirements.

(a) Election Filing Deadline. Except as provided in subsections (b) and (c), below, an election to defer an amount by an Eligible Employee as an Excess Contribution earned with respect to a Plan Year shall be filed by the Eligible Employee with the Committee prior to the beginning of that Plan Year. If an Eligible Employee has ceased being eligible to participate in the Plan (other than the accrual of earnings on his Account, if any), regardless of whether all amounts deferred under the Plan have yet been paid, and subsequently becomes eligible to participate in the Plan again, the Eligible Employee may be treated as being initially eligible to participate in the Plan if he has not been eligible to participate in the Plan (other than the accrual of earnings on his Account, if any) at any time during the 24-month period ending on the date the employee again becomes an Eligible Employee under the Plan.

(b) Initial Election. A newly hired or otherwise newly Eligible Employee may file the requisite election to defer Compensation earned thereafter before the expiration of 30 days either from, as applicable, (1) his initial date of employment (if the Eligible Employee is a new hire who is immediately eligible for the Plan) or (2) his initial date of eligibility (if the Eligible Employee is newly eligible to participate in the Plan). If an initial election is not made within such 30 day period, the Eligible Employee shall have to wait until the annual open enrollment for the next Plan Year before participating.

(c) Performance-Based Compensation. In the case of the deferral of any Performance-Based Compensation, such election shall be made no later than six months before the end of the performance period, provided that in no event may an election to defer Performance-Based Compensation be made after such Compensation has become readily ascertainable within the meaning of Code Section 409A.

(d) Irrevocable Election. Except as provided in Sections 5.03, 5.04, 5.05, and 5.06, a deferral election described in this Section 3.02, once filed, shall be irrevocable and independent of the rate of Salary Reduction Contributions to the Savings Plan; it shall remain in effect until the end of the Plan Year to which it pertains. Before the beginning of a Plan Year, the Participant shall file a new election with the Committee in accordance with the preceding provisions of this Section 3.02. The new election shall apply only to deferrals for that Plan Year. An Eligible Employee who does not make a deferral election in one Plan Year may make a deferral election for any subsequent Plan Year, provided he remains an Eligible Employee, by making a deferral election in accordance with this Section 3.02. In all cases, a Participant's election to defer Compensation shall be made prior to the time any of the Compensation covered by such election is to be earned by such Participant.

(e) Form and Content of Election. An election to make a deferral hereunder shall be in writing, in a form acceptable to the Committee, and shall specify such information as required by the Committee. A deferral election may designate any whole percentage (from 1% to 100%) of Compensation that is earned above any specified amount or after any specified date to be deferred hereunder. The Company may, in its discretion, establish and change from time to time the minimum and maximum amount that may be so deferred. Elections shall be made in accordance with procedures established by the Committee. In addition, special limitations may be established by the Committee to apply to the deferral of any special bonus or other non-periodic Compensation that a Participant is expected to receive. The Company will credit the deferred compensation amount agreed to for each Plan Year to the Participant's Account from time to time as soon as administratively practicable after the deferred amounts otherwise would have been earned and paid to the Participant.

3.03. Form and Time of Payment.

(a) General. Except as provided in Sections 5.03, 5.04, 5.05 and 5.06, an amount deferred under this Section 3 shall be paid in a lump sum as of the Valuation Date coincident with or next following the date elected by the Participant. A Participant may elect a different form or time of payment for his 409A Amounts from the time or form of payment for his Grandfathered Amounts, if any. If, however, the Participant elects to receive payment upon Separation from Service, no amount shall be distributed earlier than six months after the Valuation Date coincident with or next following the Participant's Separation from Service. A Participant may receive payment of the amounts credited to his Account upon his Separation from Service, or due to death, Disability, a Change in Control or upon a fixed date elected by the Participant. A Participant may also elect to receive payment of the amounts credited to his Account as of the earlier or later of a fixed date or Separation from Service or of two fixed dates. The Committee may also permit a Participant to make a different election as to the time and form of distribution of the amounts deferred and credited to his Account in a particular Plan Year from the amounts deferred and credited to his Account in any other Plan Year, or may require that only one time and form of payment applies to a Participant's entire Account. A Participant may also elect a different time and form of payment to apply to different permitted payment events, to the extent permitted by the Committee.

(b) Modification of Time and Form. After making his first election, a Participant may file an election with the Committee, in a form satisfactory to the Committee, to modify the payment date with respect to a deferral election or to irrevocably specify that the amount credited to his Account is to be paid in the form of five or ten annual installments; provided, however, that such election:

(1) is filed with the Committee at least twelve months prior to the date of the first scheduled payment;

(2) is not effective until at least twelve months after the date on which the election is made;

(3) defers the lump sum payment or the first installment payment with respect to which such election is made for a period of not less than five years from the date such payment would otherwise have been made;

(4) does not accelerate payment of the 409A Amount; and

(5) does not request other than five or ten annual installments. If payment is to be made in annual installments, it shall commence on the specified payment date with subsequent annual installments to occur on the same date each year thereafter (or the next business day if the date falls on a weekend or holiday) until the amount payable in installments is distributed in full.

For purposes of the Plan, an election to receive benefits as five or ten annual installments shall be treated as the entitlement to a single payment as further described in Treas. Reg. Section 1.409A-2(b)(iii).

(c) A Participant may not change a distribution option or a distribution date in a manner that does not comply with Code Section 409A. If a distribution option election is made or changed and distribution is triggered before 12 months have elapsed, the distribution will be made in accordance with the distribution option election in effect prior to the change or, if none, as a single lump sum. If an annual installment payment method is the selected distribution option, the amount of the annual benefit shall equal the amount necessary to fully distribute the Participant’s Account as an annual benefit payable over the installment period.

SECTION 4. ACCOUNTS

4.01. Accounts.

The Company shall maintain for bookkeeping purposes an Account in the name of each Participant. Each Account shall have a Participant Subaccount and an Employer Match Subaccount, as applicable, to which shall be credited amounts deferred under Section 3.

4.02. Participant Subaccount.

The Company shall maintain a Participant Subaccount in the name of each Participant. During each Plan Year, each Participant Subaccount shall be credited with the Participant's Excess Contributions deferred under Section 3.

4.03. Employer Match Subaccount.

The Company shall maintain a separate Employer Match Subaccount in the name of each Participant for purposes of accrual of the Employer Match. For each Plan Year, the Employer Match shall begin to accrue monthly only after the Participant is no longer eligible to receive a Matching Contribution under the Savings Plan for the Plan Year. The rate of Employer Match in this Plan shall be the same rate in effect under the Savings Plan for the applicable Plan Year.

4.04. Investment Returns.

(a) Rate of Return Indices. The Compensation Committee shall select and maintain one or more rate of return indices as specified on Exhibit A attached hereto. The Compensation Committee may amend the list of rate of return indices from time to time in its sole discretion. Any Excess Contributions or any Employer Matching Contribution shall be allocated among one or more of the rate of return indices and shall be credited with the applicable investment return (or loss) that such Excess Contribution or Employer Matching Contribution would have achieved if it were invested in the specified index or indices. Allocations to one or more of the rate of return indices may be modified from time to time during the Plan Year to the extent permitted by the Committee, in its sole discretion. Any Excess Contributions or any Employer Matching Contributions that were deferred and vested as of January 1, 2005, may also be allocated among one or more of the rate of return indices on Exhibit A attached hereto to the extent the Committee so provides.

(b) Election of Rate of Return Indices.

(1) Each Participant shall specify in writing, at the time he completes his election to participate under Section 3, and in a form acceptable to the Committee, how any Excess Contribution or Employer Match shall be allocated among the indices specified on Exhibit A attached hereto.

(2) The Committee may, in its discretion and from time to time, permit a Participant to change any election previously made with respect to the allocation of any Excess Contribution or Employer Match, subject to such conditions and such limitations as the Committee may prescribe. Any such change in election shall be in writing and in a form acceptable to the Committee.

(3) The Committee may, in its discretion and from time to time, permit a Participant to elect to reallocate the amounts in such Participant's Participant Subaccount or Employer Match Subaccount from one rate of return index to another, subject to such conditions and such limitations as the Committee may prescribe; provided that a Participant shall be permitted, at least once per calendar month, to reallocate amounts previously allocated. Any such reallocation election shall be in writing and in a form acceptable to the Committee.

(4) The Committee may require that any election under this Section 4.04 apply to the entire amount to which it pertains (e.g., 100% of the Participant's future contributions) or to such percentage or percentages of that amount as the Committee may specify (e.g., increments of 5%).

(5) If a Participant fails to specify a rate of return index with respect to his Excess Contribution or Employer Match, the Participant shall be presumed to have specified that his entire Participant Subaccount or Employer Match Subaccount be allocated to the index determined by the Committee to represent the lowest risk of principal loss.

(c) Crediting of Investment Return. The balance credited to the Participant's Participant Subaccount or Employer Match Subaccount as of the last day of the prior month shall be credited with the applicable investment return (or loss) as of the last day of the month of crediting. All references herein to Excess Contributions or Employer Match shall be deemed to include such Excess Contributions or Employer Match plus any investment return (or loss) credited pursuant to this Section 4.04.

4.05. Vesting of Accounts.

A Participant shall at all times be 100% vested in the balance in his Account; provided, however, that all Accounts shall be subject to the claims of the Company's creditors as provided in Section 6.

SECTION 5. DISTRIBUTIONS

5.01. Exclusive Entitlement to Payment.

A Participant's deferral election pursuant to Section 3 shall constitute a waiver of his right to receive the amount deferred and an agreement to receive in lieu thereof the amounts payable to him at the times and in the methods specified in this Section 5. No other amounts shall be due under the Plan or otherwise as a result of a Participant's deferral election under Section 3.

5.02. Payment.

(a) Time of Payment. Subject to Sections 5.03, 5.04, 5.05, and 5.06, the Participant shall receive an amount equal to the sum of the balances in his Account at the time(s) and in the manner specified or elected by him in accordance with Section 3.03. If the deferred amounts are subject to more than one distribution election made in accordance with Section 3.03, then the portion of the Participant's Account that is subject to each election shall be distributed in accordance with the applicable election. The Participant's Account shall be debited to reflect each distribution pursuant to this Section 5.

(b) Payment Medium. All amounts credited to a Participant's Account shall be paid in cash.

(c) Installment Payments. If the Participant receives installments, the amount of the first installment shall be equal to the value of the Participant's Account determined as of the Valuation Date as of which the installments commence (the "applicable Valuation Date"), divided by five (if five installments are elected) or ten (if ten installments are elected). The amount of each succeeding installment shall be equal to the value of the Participant's Account on the next succeeding anniversary of the applicable Valuation Date, divided by the remaining number of installments to be paid.

5.03. Death Benefits.

(a) Amount and Form of Death Benefit. Any amount credited to a Participant's Account that is unpaid at the time of the Participant's death shall be paid in a single lump sum to the Beneficiary (or the contingent Beneficiary if the Beneficiary predeceases the Participant) designated by the Participant pursuant to Section 9.02.

(b) Time of Payment. A distribution pursuant to this Section 5.03 shall be paid to the Participant's Beneficiary within 30 days after the Valuation Date that is coincident with or next follows the date of the Participant's death.

5.04. Hardship Distributions.

Notwithstanding Sections 3.02 and 3.03, upon the occurrence of an unforeseeable emergency, a Participant shall be eligible to receive payment of the amount necessary to satisfy such emergency plus amounts necessary to pay taxes reasonably anticipated as a result of the distribution, after taking into account the extent to which such hardship is or may be relieved through reimbursement or compensation by insurance or otherwise or by liquidation of the Participant’s assets (to the extent such liquidation would not itself cause severe financial hardship), or by cessation of deferrals under the Plan. The amount determined to be properly distributable under this Section and applicable regulations under Code Section 409A shall be payable in a single lump sum only. For the purposes of this Section, the term “unforeseeable emergency” means a severe financial hardship to the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, or a dependent of the Participant (as defined in Code Section 152, without regard to Sections 152(b)(1), (b)(2) and (d)(1)(B)); loss of the Participant’s property due to casualty, including the need to rebuild a home following damage not otherwise covered by insurance, for example, not as a result of a natural disaster; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, including imminent foreclosure of or eviction from the Participant’s primary residence, the need to pay for medical expenses, including non-refundable deductibles, the cost of prescription drugs, and the need to pay for funeral expenses of a spouse, beneficiary, or dependent. It shall be the responsibility of the Participant seeking to make a withdrawal under this Section to demonstrate to the Committee that an unforeseeable emergency has occurred and to document the amount properly distributable hereunder. After a distribution on account of an unforeseeable emergency, a Participant’s deferral elections shall cease and such Participant will not be permitted to participate in the Plan or elect additional deferrals until the next enrollment following one full year from the date of the distribution on account of an unforeseeable emergency. Such future deferral elections following a distribution on account of an unforeseeable emergency will be treated as an initial deferral election and subject to the rules applicable thereto under the Plan and Code Section 409A.

5.05. Disability.

Upon the Participant’s Disability, the Participant shall be eligible to receive payment of the amounts credited to his Account commencing as soon as practicable but no more than 90 days after the Committee is satisfied of the determination of the existence of a Disability with respect to such Participant. Benefits payable upon Disability shall be paid in a single lump sum unless another distribution option (annual installments over a period of 5 or 10 years) was timely elected by the Participant upon initial enrollment in the Plan or at least 12 months prior to his Disability. The Committee may, in its discretion, permit each Participant to elect a distribution option to apply to distributions made upon Disability that is different from the distribution option applicable to other payment events.

5.06. Change in Control.

Notwithstanding any election made pursuant to Sections 3.02 and 3.03 and subject to obtaining written consent from affected Participants pursuant to Section 8, upon a Change in Control, the Participant shall receive amounts credited to his Account in the form of a single lump sum payment within 90 days of the event constituting the Change in Control.

5.07. Acceleration of Payment.

The acceleration of the time and/or form of any payment determined in accordance with the provisions of this Section 5, above, shall not be made except due to unforeseeable emergency, as described above, or as set forth below and otherwise permitted by Code Section 409A and the Treasury Regulations and other guidance issued thereunder:

(a) Employment Taxes. A payment of all or part of the Participant's Account may be made to the extent necessary to pay the Federal Insurance Contributions Act ("FICA") tax imposed under Code Sections 3101, 3121(a), and 3121(v)(2) on amounts deferred under the Plan (the "FICA Amount"), income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of the payment of the FICA Amount, and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this Section shall not exceed the aggregate of the FICA Amount and the income tax withholding related to such FICA Amount.

(b) Payment of State, Local or Foreign Taxes. Payment may be made to reflect payment of state, local or foreign tax obligations arising from participation in the Plan that apply to an amount deferred under the Plan before the amount is paid or made available to the Participant, plus the income tax at source on wages imposed under Code Section 3401 as a result of such payment; provided, however, that the amount of the payment may not exceed the amount of the taxes due, and the income tax withholding related to such state, local and foreign tax amount.

(c) Income Inclusion under Code Section 409A. Payment may be made at any time the Plan fails to meet the requirements of Code Section 409A and the Treasury Regulations issued thereunder; provided, however, that payment cannot exceed the amount required to be included in income as a result of the failure to comply.

(d) Certain Offsets. Payment may be made as satisfaction of a debt of the Participant to the Company where: (1) the debt is incurred in the ordinary course of the employment relationship; (2) the entire amount of the offset in any of the Participant's taxable years does not exceed $5,000; and (3) the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.

5.08. Delay of Payment.

A Participant who is a "specified employee" (as defined in Code Section 409A and the regulations thereunder) and is entitled to a distribution due to a Separation from Service may not receive a distribution under the Plan until a date that is at least six months after the date of the Separation from Service. In addition, the Company may in its discretion delay any payment due under the Plan to the extent permitted by Code Section 409A and the regulations thereunder.

5.09. Assignment and Assumption of Liabilities.

In the discretion of the Company, upon the cessation of participation in the Plan by any Participant solely due to the employer of that Participant no longer qualifying as a member of the controlled group of Chesapeake Utilities Corporation within the meaning of Code Sections 414(b) and (c), all liabilities associated with the Account of such Participant may be transferred to and assumed by the Participant's employer under a deferred compensation plan established by such employer that is substantially identical to this Plan and that preserves the deferral and payment elections in effect for the Participant under this Plan to the extent required by Code Section 409A. Any such Participant shall not be deemed to have incurred a Separation from Service for purposes of the Plan by virtue of his employer's ceasing to be a member of the controlled group of Chesapeake Utilities Corporation The foregoing provision shall be interpreted and administered in compliance with the requirements of Code Section 409A.

SECTION 6. NATURE OF PARTICIPANT'S INTEREST IN PLAN

6.01. No Right to Assets.

Participation in this Plan shall not create, in favor of any Participant or Beneficiary, any interest in or lien against any of the assets of the Company. All payments hereunder shall be paid in cash from the general funds of the Company, and no special or separate fund shall be established and no other segregation of assets shall be made to assure the payments of benefits hereunder. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Company and a Participant or any other person, and the promise of the Company to pay benefits hereunder shall, at all times, remain unfunded as to the Participant or Beneficiary, whose rights hereunder shall be limited to those of a general and unsecured creditor of the Company.

6.02. No Right to Transfer Interest.

A Participant's or Beneficiary's rights to benefits payable under the Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance. However, the Committee may permit a Participant or Beneficiary to enter into a revocable arrangement to pay all or part of his benefits under the Plan to a revocable grantor trust (a so-called "living trust"). In addition, the Committee may recognize the right of an alternate payee named in a domestic relations order to receive all or part of a Participant's benefits under the Plan, but only if (a) the domestic relations order would be a "qualified domestic relations order" (within the meaning of Section 414(p) of the Code (if Section 414(p) applied to the Plan)), (b) the domestic relations order does not attempt to give the alternate payee any right to any asset of the Company, (c) the domestic relations order does not attempt to give the alternate payee any right to receive payments under the Plan at a time or in an amount that the Participant could not receive under the Plan, and (d) the amount of the Participant's benefits under the Plan are reduced to reflect any payments made or due the alternate payee.

6.03. No Right to Employment.

No provisions of the Plan and no action taken by the Company, the Board, the Compensation Committee, or the Committee will give any person any right to be retained in the employ of the Company, and the Company specifically reserves the right and power to dismiss or discharge any Participant.

6.04. Withholding and Tax Liabilities.

The amount of any withholdings required to be made by any government or government agency will be deducted from benefits paid under the Plan to the extent deemed necessary by the Committee. In addition, the Participant or Beneficiary (as the case may be) will bear the cost of any taxes not withheld on benefits provided under the Plan, regardless of whether withholding is required.

SECTION 7. ADMINISTRATION

7.01. Committee.

The Plan shall be administered by the Committee, the members of which shall serve at the pleasure of the Board. The Committee may allocate its responsibilities for the administration of the Plan among its members or among any subcommittee(s) it may appoint and may designate persons other than its members to carry out its responsibilities under the Plan.

7.02. Meetings.

The Committee shall hold meetings upon such notice, at such place or places, and at such intervals as are required to carry out its functions.

7.03. Quorum.

A majority of the members of the Committee at any time in office shall constitute a quorum for the transaction of business. All resolutions or other actions taken by the Committee shall be by vote of a majority of members present at a meeting of the Committee; or without a meeting by an instrument in writing signed by all the members of the Committee at such time in office.

7.04. Expenses.

The expenses incident to the operation of the Plan, including the compensation of attorneys, advisors, actuaries, and such other persons providing technical and clerical assistance as may be required, shall be paid directly by the Company.

7.05. Responsibilities of the Committee.

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

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

(b) to interpret the Plan and to decide any and all matters arising hereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions; provided that all such interpretations and decisions shall be applied in a uniform and non-discriminatory manner to all persons similarly situated;

(c) to compute the amount of benefits that shall be payable to any Participant or Beneficiary in accordance with the provisions of the Plan, and in the event that the Committee determines that Excessive Benefits have been paid to any person, the Committee may suspend payment of future benefits to such person or his Beneficiary or reduce the amount of such future benefits until the Excessive Benefits and any interest thereon determined by the Committee have been recovered;

(d) to appoint other persons to carry out any ministerial responsibilities under the Plan as it may determine consistent with applicable law;

(e) to employ one or more persons to render advice with respect to any of its responsibilities under the Plan; and

(f) to amend the Plan from time to time by written resolution for the limited purpose of meeting the requirements of Section 409A of the Code.

7.06. Finality of Committee Determinations.

Subject to the provisions of Section 7.08, determinations by the Committee and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan shall be final and binding for all purposes and upon all interested persons, their heirs, and their personal representatives.

7.07. Benefit Claims Procedure.

A claim for a benefit under the Plan by any person shall be filed in the manner and governed by the procedures set forth below:

Upon Separation from Service, death, or any and all types of claims regarding benefits under the Plan, the Participant or his representative may make application to the Company requesting payment of benefits due. If no application for benefits is made, the Company shall automatically pay any benefit due pursuant to Section 5. If an application for benefits is made, the Company shall accept, deny, or modify such request and shall notify the Participant in writing setting forth the response of the Company and in the case of a denial or modification the Company shall:

(a) state the specific reason or reasons for the denial,

(b) provide specific reference to pertinent Plan provisions on which the denial or modification is based,

(c) provide a description of any additional material or information necessary for the Participant or his representative to perfect the claim and an explanation of why such material or information is necessary, and

(d) explain the Plan's claim review procedure as contained in this Plan.

In the event the request is rejected or modified, the Participant or his representative may within 60 days following receipt by the Participant or representative of such rejection or modification, submit a written request for review by the Company of its initial decision. Within 60 days following such request for review (120 days if extraordinary circumstances exist), the Company shall render its final decision in writing to the Participant or representative stating specific reasons for such decision. If the Participant or representative is not satisfied with the Company's final decision, the Participant or representative can institute an action in a Federal court of competent jurisdiction; for this purpose, process would be served on the Company.

7.08. Arbitration of Denied Claims.

Any controversy or claim arising out of or relating to a final decision, upon review pursuant to the procedures set forth in Section 7.07, that denies a claim for benefits under the Plan may be settled by arbitration under three arbitrators in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Any such arbitration shall be subject to the statute of limitations that would apply if the claim on which the arbitration is based were brought as a suit in a United States district court under ERISA. The site of any such arbitration shall be Delaware.

SECTION 8. AMENDMENT, SUSPENSION, AND TERMINATION

8.01. By The Compensation Committee.

(a) Authority to Amend. The Compensation Committee of the Board may modify, amend, suspend, or terminate the Plan at any time; provided that no such modification, amendment, suspension, or termination shall reduce a Participant's accrued benefits under the Plan as of the date of such modification, amendment, suspension, or termination, except to the extent that the affected Participants consent in writing to the modification, amendment, suspension, or termination; and provided further that no such modification, amendment, suspension, or termination shall eliminate, restrict, or modify any of the following provisions of the Plan, except to the extent that the affected Participants consent in writing to the modification, amendment, suspension, or termination:

(1) the provision in Section 2.01(e) that defines "Change in Control";

(2) the provision in Section 5.06 that provides for a lump sum payment following a Change in Control;

(3) the provision in Section 7.08 that permits submission of denied claims for benefits to arbitration; and

(4) the provisions of this Section 8 that protect accrued benefits and limit modification, amendment, suspension, or termination of the Plan.

Except as provided in the preceding sentence, any modification, amendment, suspension, or termination of the Plan may reduce or eliminate a benefit under the Plan. Although the Plan is not subject to Section 204(g) of ERISA, the accrued benefits that are protected by this Section 8 shall include those accrued benefits that would be protected by Section 204(g) of ERISA if the Plan were subject to said Section 204(g) and the rights specified in items (1) through (4), above.

(b) Authority to Delegate. The Board may, in its sole discretion, delegate to any person or persons all or part of its authority and responsibility under the Plan, including, without limitation, the authority to amend the Plan.

8.02. By the Committee.

The Committee shall have the right by written resolution to amend the Plan from time to time, for the limited purpose of meeting the requirements of Section 409A of the Code.

SECTION 9. MISCELLANEOUS

9.01. Participation by Affiliate.

Subject to the consent of the Compensation Committee, an Affiliate may participate in the Plan by delivering to the Compensation Committee a resolution of its board of directors approving such action. Such Affiliate shall begin participating in the Plan as of an effective date approved by the Compensation Committee and shall be subject to the provisions of the Plan.

9.02. Designation of Beneficiary.

(a) Each Participant may designate a Beneficiary. Such designation shall be in writing, shall be made in the form and manner prescribed by the Committee, and shall be effective only if filed with the Committee prior the Participant's death. A Participant may, at any time prior to his death, and without the consent of his Beneficiary, change his designation of Beneficiary by filing a written notice of such change with the Committee in the form and manner prescribed by the Committee. In the absence of a designated Beneficiary, or if the designated Beneficiary and any designated contingent Beneficiary predecease the Participant, the Beneficiary shall be the Participant's surviving spouse, or if the Participant has no surviving spouse, the Participant's estate.

(b) If a Participant designates his spouse as his Beneficiary, that designation shall not be revoked or otherwise altered or affected by any

(1) change in the marital status of the Participant and such spouse,

(2) agreement between the Participant and such spouse, or

(3) judicial decree (such as a divorce decree) affecting any rights that the Participant and such spouse might have as a result of their marriage separation, or divorce,

until and unless the Participant revokes and designates a Beneficiary in accordance with this Section 9.02, it being the intent of the Plan that any change in the designation of a Beneficiary under the Plan may be made by the Participant only in accordance with the provision of this Section 9.02.

9.03. Incapacity.

If the Committee determines that any person entitled to benefits under the Plan is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, brother, sister, or other party deemed by the Committee to have incurred expenses for such person.

9.04. Required Information.

Any person eligible to receive benefits under the Plan shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient grounds for delay in the payment of any benefits that may be due under the Plan until such information or proof is received by the Committee. If any person claiming benefits under the Plan makes a false statement that is material to such person's claim for benefits, the Committee may offset against future payments any amount paid to such person to which such person was not entitled under the provisions of the Plan.

9.05. Inability to Locate Participants and Beneficiaries.

Each Participant and each Beneficiary entitled to receive a benefit under the Plan shall keep the Committee advised of his current address. If the Committee is unable to locate a Participant or Beneficiary to whom a benefit is payable under the Plan for a period of 36 months, commencing with the first day of the month as of which such benefit becomes payable, the total amount payable to such Participant or Beneficiary shall be forfeited, subject to being restored (without any intervening investment gains) only if the Participant and Beneficiary provide evidence sufficient to satisfy the Committee that the Participant or Beneficiary is entitled to such forfeited amount.

9.06. Headings.

Any headings used in this document are for convenience of reference only and may not be given any weight in interpreting any provision of the Plan.

9.07. Severability.

If any provision of the Plan shall be held illegal or invalid for any reason, such illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if such illegal or invalid provision had never been included in the Plan. In addition, if any provision of the Plan shall be found to violate Section 409A of the Code or otherwise result in any portion of a Participant's or Beneficiary's benefits under the Plan being subject to income tax prior to distribution, such provision shall be void and unenforceable, and the Plan shall be administered without regard to such provision.

9.08. Governing Law.

The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Delaware (not including its conflict of law rules), except to the extent that such laws are pre-empted by Federal law.

9.09. Complete Statement of Plan.

This Plan contains a complete statement of its terms. The Plan may be amended, suspended, or terminated only in writing and then only as provided in Section 8. A Participant's right to any benefit of a type provided under the Plan will be determined solely in accordance with the terms of the Plan. No other evidence, whether written or oral, will be taken into account in interpreting the provisions of the Plan.

	CHESAPEAKE UTILITIES CORPORATION
ADOPTED:	**ATTESTED:**
______________________________	______________________________
Executive Vice President and Chief Operating Officer	Senior Vice President and CFO

DATE: December __________, 2008

EXHIBIT A

Rate of Return Indices
Effective January 1, 2009

1. BlackRock Money Market Portfolio (PINXX)

2. BlackRock Core Bond Total Return II Portfolio (CMCBX)

3. BlackRock Intermediate Government Bond Portfolio (PIGSX)

4. Calvert Income Fund (CFICX)

5. T. Rowe Price Retirement Income Fund (PARIX)

6. American Funds — Balanced Fund (ABALX)

7. T. Rowe Price Retirement 2010 Fund (PARAX)

8. T. Rowe Price Retirement 2020 Fund (PARBX)

9. T. Rowe Price Retirement 2030 Fund (PARCX)

10. T. Rowe Price Retirement 2040 Fund (PARDX)

11. T. Rowe Price Retirement 2050 Fund (PARFX)

12. American Funds — Growth Fund of America (AGTHX)

13. American Funds — Investment Company of America (AIVSX)

14. T. Rowe Price Equity Income Fund (PAFDX)

15. Fidelity Spartan U.S. Equity Index Fund (FUSEX)

16. Federated Kaufmann Fund (KAUAX)

17. T. Rowe Price Mid Cap Value Fund (TAMVX)

18. Federated Mid-Cap Index Fund (FMDCX)

19. AIM Small Cap Growth Fund (GTSAX)

20. American Century Small Cap Value Fund (ASVIX)

21. American Funds — EuroPacific Growth Fund (AEPGX)

22. American Funds — Capital World Growth & Income Fund (CWGIX)

APPENDIX A

The following Plan provisions apply only to amounts deferred and vested (within the meaning of Section 409A of the Code) before January 1, 2005, and any earnings on such amounts, to the full extent permitted by Section 409A of the Code. Amounts deferred or vested after December 31, 2004, and any earnings thereon, are subject to the provisions of the Plan as amended and restated, effective January 1, 2005, or any subsequent amendment and restatement of the Plan.

Section 1. Establishment and Purpose

1.1 Establishment.

There is hereby established for the benefit of certain Eligible Employees an unfunded plan of deferred compensation known as the "Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan."

1.2 Purpose.

The Plan is an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management and highly compensated employees. The Plan permits Eligible Employees to defer receipt of that portion of their Compensation that, but for the Limitations, as defined herein, could be contributed to the Chesapeake Utilities Corporation Retirement Savings Plan.

Section 2. Definitions

The following words and phrases as used in the Plan have the following meanings:

"Account" means the Employer Match Account, the Participant Account, or both.

"Affiliate" means any employer that has not adopted the Plan and that is a corporation included with Chesapeake Utilities Corporation in a "controlled group of corporations," as defined in Code Section 414(b), or an unincorporated business included with Chesapeake Utilities Corporation in a group of trades or business under "common control," as defined by regulations prescribed by the Secretary of the Treasury under Code Section 414(c).

"Beneficiary" means the person or persons (including a contingent beneficiary except where the context indicates otherwise) designated by a Participant pursuant to Section 9.2 hereof to receive death benefits under the Plan.

"Board of Directors" or **"Board**" means the Board of Directors of Chesapeake Utilities Corporation.

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

(a) 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

(b) any person or group (within the meaning of Sections 13(d) and 14(d) of the 1934 Act), other than the Company or any of its majority-controlled subsidiaries, 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

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

(d) 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

(e) the Company's 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

(f) 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

(g) 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 or 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.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Committee" means the Committee designated in Section 7.1 hereof to administer the Plan.

"Compensation" means an employee's compensation as determined for purposes of the Chesapeake Utilities Corporation Retirement Savings Plan, plus amounts deferred hereunder, except that any dollar limit that the Chesapeake Utilities Corporation Retirement Savings Plan imposes on the compensation that is taken into account thereunder shall be disregarded hereunder.

"Compensation Committee" means the Compensation Committee of the Board of Directors.

"Eligible Employee" means an employee of an Employer who is designated by the Compensation Committee to be eligible to participate in the Plan; provided that, on and after a Change in Control, each employee of an Employer who was an Eligible Employee immediately before the Change in Control shall remain an Eligible Employee as long as the employee is employed by an Employer. For purposes of the Plan, any person whose compensation is paid by an Employer shall be deemed to be an employee of the Employer, notwithstanding that the person renders all or part of his services to a Related Company.

"Employer" means Chesapeake Utilities Corporation and any Affiliate that may be authorized by the Compensation Committee and by its own board of directors to participate in the Plan with respect to its employees.

"Employer Match" means the amount accrued in accordance with Section 4.2 hereof with respect to a Participant's Salary Reduction Contributions and Excess Contributions, based on the rate or rates of Matching Contributions contributed for the Participant under the Chesapeake Utilities Corporation Retirement Savings Plan.

"Employer Match Account" means the bookkeeping account to which the Employer Match on behalf of a Participant and interest are credited pursuant to Section 4 hereof.

"Excess Contribution" means that portion of the total amount (up to a maximum of 15% or such other percentage of Compensation as specified in Section 6(a) of the Adoption Agreement to the Chesapeake Utilities Corporation Retirement Savings Plan) by which the Participant elects to have his Compensation reduced that the Limitations prevent from being made to the Chesapeake Utilities Corporation Retirement Savings Plan.

"Limitations" mean

(a) the limitation on contributions to defined contribution plans under Sections 401(k), 401(m), 402(g), and 415(c) of the Code;

(b) the limitations imposed by Sections 401(a)(4), 401(a)(17), and 415(e) of the Code and by any other provision of the Code to the extent that such provision limits the amount of Salary Reduction Contributions and Matching Contributions that otherwise would be made to the Chesapeake Utilities Corporation Retirement Savings Plan; and

(c) the limitations contained in Section 4(a)(ii) of the Adoption Agreement to the Chesapeake Utilities Corporation Retirement Savings Plan, as it may be amended from time to time, that prevent an Eligible Employee from participating in the Chesapeake Utilities Corporation Retirement Savings Plan until he has satisfied a minimum service requirement.

"Matching Contributions" mean the contributions made by the Employer pursuant to Section 7(c) of the Adoption Agreement to the Chesapeake Utilities Corporation Retirement Savings Plan, as it may be amended from time to time.

"Participant" means an Eligible Employee who becomes a participant in the Plan in accordance with Section 3.1 hereof and whose Accounts hereunder have a positive balance.

"Participant Account" means the bookkeeping account to which the Excess Contributions of a Participant and interest are credited pursuant to Section 4 hereof.

"Plan" means the "Chesapeake Utilities Corporation Supplemental Executive Retirement Savings Plan" as set forth herein and as amended from time to time.

"Plan Year" means the calendar year, provided however that the first Plan Year shall be the period from March 1, 1999 to December 31, 1999.

"Related Company" means an Employer, any Affiliate, and any other employer the majority interest in which is held, directly or indirectly, by an Employer or an Affiliate.

"Salary Reduction Contribution" means that portion of the total amount (up to a maximum of 15% or such other percentage of Compensation as specified in Section 6(a) of the Adoption Agreement to the Chesapeake Utilities Corporation Retirement Savings Plan) by which a Participant elects to have his Compensation reduced that may be contributed by his Employer to the Chesapeake Utilities Corporation Retirement Savings Plan without violating the Limitations.

"Valuation Date" means the last business day of each calendar month.

Section 3. Participation

3.1 Election of Excess Contributions.

An Eligible Employee shall participate in this plan if (a) he elects to participate in the Plan and (b) the contributions made on his behalf under the Chesapeake Utilities Corporation Retirement Savings Plan are reduced by the Limitations.

3.2 Election Filing Deadline.

An Eligible Employee may elect to participate in the Plan only if, prior to the beginning of the first Plan Year in which he participates in the Plan, he files an election with the Committee, in a form satisfactory to the Committee, irrevocably deferring receipt of an amount equal to his Excess Contributions for the Plan Year (or partial Plan Year, if applicable), which amount shall be designated as a percentage of his compensation. Notwithstanding the foregoing sentence, (i) an Eligible Employee may file the requisite election to defer Compensation earned thereafter before the expiration of 30 days from the initial effective date of the Plan, and (ii) a newly hired or otherwise newly Eligible Employee may file the requisite election to defer Compensation earned thereafter before the expiration of 30 days either from his initial date of employment, if the Eligible Employee is a new hire, or his initial date of eligibility, if the Eligible Employee is newly eligible to participate in the Plan.

3.3 Irrevocable Election.

The designated percentage of Compensation shall be irrevocable, regardless of whether the rate of Salary Reduction Contributions to the Chesapeake Utilities Corporation Retirement Savings Plan is changed during the Plan Year. Such election shall automatically apply to each subsequent Plan Year unless the Participant, before the beginning of a Plan Year, revokes his prior election. In that event, he may file a new election with the Committee before the beginning of the Plan Year in accordance with the preceding provisions of this Section 3. No participant may elect to have his Compensation reduced hereunder by a greater percentage than the percentage that, when added to the percentage of his Compensation that is being contributed as Salary Reduction Contributions on his behalf to the Chesapeake Utilities Corporation Retirement Savings Plan, will equal the maximum allowable rate at which Salary Reduction Contributions may be made under the Chesapeake Utilities Corporation Retirement Savings Plan (determined without regard to the Limitations and without regard to the provisions of the Chesapeake Utilities Corporation Retirement Savings Plan that implement the Limitations). If an Eligible Employee does not elect to become a Participant before the first Plan Year (or partial Plan Year) in which he is eligible to participant in the Plan, he may, if he remains an Eligible Employee, elect to participate in the Plan before the beginning of any subsequent Plan Year.

3.4 Form and Time of Payment.

Amounts credited to a Participant's Account shall be paid in the form of annual installments over a period of five years beginning as of the Valuation Date coincident with or next following the date on which the Participant's employment with the Employer and the Related Companies terminates. At the time an Eligible Employee first elects to become a Participant in accordance with Section 3.1 hereof, he may file an election with the Committee, in a form satisfactory to the Committee, irrevocably specifying that the installments shall begin on any subsequent Valuation Date that occurs not later than the last Valuation Date of the calendar year in which the Participant attains age 70. At any time after making his first election, a Participant may file an election with the Committee, in a form satisfactory to the Committee, irrevocably specifying that the amount credited to his Account is to be paid in a single lump sum as of the date specified for the first installment payment, provided that such election is filed with the Committee at least one year (365 days) prior to the payment date.

Section 4. Accounts

4.1 Participant Account.

The Employer shall maintain a Participant Account in the name of each Participant. During each Plan Year, each Participant Account shall be credited with the Participant's Excess Contributions.

4.2 Employer Match Account.

The Employer shall maintain a separate Employer Match Account in the name of each Participant for purposes of accrual of the Employer Match. The Employer Match shall accrue monthly, at a rate or rates with respect to the eligible portion of the Excess Contribution (and any Salary Reduction Contributions for which the Limitations prohibit Matching Contributions) equal to the rate or rates at which Matching Contributions are made with respect to the Salary Reduction Contributions for the Participant under the Chesapeake Utilities Corporation Retirement Savings Plan. The portion of a Participant's Excess Contributions eligible for the Employer Match shall be that portion that, when added to the Participant's Salary Reduction Contributions under the Chesapeake Utilities Corporation Retirement Savings Plan, does not exceed six percent of the Participant's Compensation, or such higher or lower percentage as is provided in Section 7(c)(iii) of the Adoption Agreement to the Chesapeake Utilities Corporation Retirement Savings Plan, as it may be amended from time to time; provided that in no event shall any portion of a Participant's Excess Contribution be eligible for an Employer Match unless the Limitations prevent the Participant's Salary Reduction Contributions and related Matching Contributions from being made to the Chesapeake Utilities Corporation Retirement Savings Plan.

4.3 Interest.

Each Participant's Accounts shall be credited monthly with interest at a rate to be determined by the Committee annually.

Section 5. Distributions

5.1 Payment.

The Participant shall receive an amount equal to the sum of the balances in his Accounts at the time(s) and in the manner specified or elected by him in accordance with Section 3.4 hereof. Subject to Section 5.3 hereof, no amount shall be distributed until a Participant's employment with the Employer and the Affiliates is terminated. The Participant's Accounts shall be debited to reflect each distribution pursuant to this Section 5. If the Participant receives installments, the amount of the first installment shall be equal to the value of the Participant's Accounts determined as of the Valuation Date as of which the installments commence (the "applicable Valuation Date"), multiplied by a fraction, the numerator of which shall be one and the denominator of which shall be five; and the amount of each succeeding installment shall be equal to the value of the Participant's Accounts on the next succeeding anniversary of the applicable Valuation Date, multiplied by a fraction, the numerator of which shall be one and the denominator of which shall be the number of installments remaining to be paid.

5.2 Death Benefits.

If a Participant dies before the balance credited to his Accounts has been distributed in full, the Participant's Beneficiary shall be entitled to receive the balance credited to the Participant's Accounts. If the Beneficiary dies before receiving the entire amount due, any remaining amount shall be paid to the Beneficiary's estate. If the Beneficiary predeceases the Participant, the contingent Beneficiary, if any, shall receive the entire amount due under this Section 5.2. If the contingent Beneficiary dies before receiving the entire amount due, any remaining amount shall be paid to the contingent Beneficiary's estate. Distributions to a Participant's Beneficiary pursuant to this Section 5.2 shall be paid in annual installments over a five-year period. The amount of each installment distribution shall be determined in the same manner that installment distributions are determined in Section 5.1 hereof; provided that the applicable Valuation Date for purposes of this Section 5.2 shall be the Valuation Date that is coincident with or next follows the date on which the Committee receives the written notification of the Participant's death together with any additional information or documentation that the Committee determines to be necessary or appropriate before it makes a distribution. Distributions shall commence within 30 days of the applicable Valuation Date.

5.3 Committee Discretion to Accelerate Certain Payments.

At any time, upon the written application of the Participant (or, after his death, his Beneficiary) the Committee may (a) reduce or eliminate the Participant's future deferrals of Compensation hereunder, or (b) accelerate and pay in a lump sum to the Participant (or, after his death, to his Beneficiary) all or part of the balance of the Participant's Accounts, or both, if the Committee finds, in its sole discretion, that such person has incurred or will incur a severe financial hardship resulting from an accident, illness or other event beyond his control. In such event, the Committee shall reduce or eliminate future deferrals and accelerate payments only to the extent reasonably necessary to eliminate or avoid the severe financial hardship.

Section 6. Nature of Interest of Participant

6.1 Plan Participation.

Participation in this Plan shall not create, in favor of any Participant or Beneficiary, any interest in or lien against any of the assets of the Employer. A Participant's or Beneficiary's rights to benefits payable under Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance. All payments hereunder shall be paid in cash from the general funds of the Employer, and no special or separate fund shall be established and no other segregation of assets shall be made to assure the payments of benefits hereunder. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship, between the Employer and a Participant or any other person, and the promise of the Employer to pay benefits hereunder shall at all times remain unfunded as to the Participant or Beneficiary, whose rights hereunder shall be limited to those of a general and unsecured creditor of the Employer.

Section 7. Administration

7.1 Committee.

The Plan shall be administered by the Pension and Savings Plan Committee of Chesapeake Utilities Corporation. The Committee shall serve at the pleasure of the Board. The Committee may allocate its responsibilities for the administration of the Plan among its members or among any subcommittee(s) it may appoint and may designate person other than its members to carry out its responsibilities under the Plan.

7.2 Meetings.

The Committee shall hold meetings upon such notice, at such place or places, and at such intervals as are required to carry out its functions.

7.3 Quorum.

A majority of the members of the Committee at any time in office shall constitute a quorum for the transaction of business. All resolutions or other actions taken by the Committee shall be by vote of a majority of those present at a meeting of the Committee; or without a meeting by an instrument in writing signed by all the members of the Committee at such time in office.

7.4 Expenses.

The expenses incident to the operation of the Plan, including the compensation of attorneys, advisors, actuaries, and such other persons providing technical and clerical assistance as may be required, shall be paid directly by the Employer.

7.5 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 discretionary powers and duties:

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

(b) To interpret the Plan and to decide any and all matters arising hereunder, including the right to remedy possible ambiguities, inconsistencies, or omissions; provided that all such interpretations and decisions shall be applied in a uniform and non-discriminatory manner to all persons similarly situated;

(c) To compute the amount of benefits that shall be payable to any Participation or Beneficiary in accordance with the provisions of the Plan, and in the event that the Committee determines that excessive benefits have been paid to any person, the Committee may suspend payment of future benefits to such person or his Beneficiary or reduce the amount of such future benefits until the excessive benefits and any interest thereon determined by the Committee have been recovered;

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

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

7.6 Finality.

Subject to the provisions of Section 7.8 hereof, determinations by the Committee and any interpretation, rule, or decision adopted by the Committee under the Plan or in carrying out or administering the Plan shall be final and binding for all purposes and upon all interested persons, their heirs, and their personal representatives.

7.7 Benefit Claims Procedure.

A claim for a benefit under the Plan by any person shall be filed in the manner and governed by the procedures set forth in Section 6.7 of the Chesapeake Utilities Corporation Retirement Savings Plan, as it may be amended from time to time.

7.8 Arbitration of Denied Claims.

Any controversy or claim arising out of or relating to a final decision, upon review pursuant to the procedures set forth in Section 6.7 of the Chesapeake Utilities Corporation Retirement Savings Plan, as it may be amended from time to time, that denies a claim for benefits under the Plan shall be settled by arbitration under three arbitrators in accordance with the Commercial Arbitration Rules of the America Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof. Any such arbitration shall be subject to the statute of limitations that would apply if the claim on which the arbitration is based were brought as a suit in a United States district court under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The site of any such arbitration shall be Delaware.

Section 8. Amendment, Suspension and Termination

The Compensation Committee of the Board of Directors may modify, amend, suspend, or terminate the Plan at any time; provided that no such modification, amendment, suspension, or termination shall reduce a Participant's accrued benefits under the Plan as of the date of such modification, amendment, suspension, or termination, except to the extent that the affected Participant's (or, with respect to deceased Participants, the affected Beneficiaries of the Participants) consent in writing to the modification, amendment, suspension, or termination; and provided further that no such modification, amendment, suspension, or termination shall eliminate, restrict, or modify any of the following provisions of the Plan, except to the extent that the affected Participants (or, with respect to deceased Participants, the affected Beneficiaries of the deceased Participants) consent in writing to the modification, amendment, suspension, or termination:

(a) the provision in Section 2.5 hereof that defines "Change in Control";

(a) the provision in Section 2.9 hereof that preserves the eligibility under the Plan of certain Eligible Employees after a Change in Control;

(c) the provision in Section 7.8 hereof that permits submission of denied claims for benefits to arbitration; and

(d) the provisions of this Section 8 that protect accrued benefits and limit modification, amendment, suspension, or termination of the Plan.

Except as provided in the preceding sentence, any modification, amendment, suspension, or termination of the Plan may reduce or eliminate a benefit under the Plan. Although the Plan is not subject to Section 2.04(g) of ERISA, the accrued benefits that are protected by this Section 8 shall include those accrued benefits that would be protected by Section 204(g) of ERISA if the Plan were subject to said Section 204(g) and the rights specified in paragraphs (a) through (d), above.

Section 9. Miscellaneous

9.1 Participation by Affiliate.

Subject to the consent of the Compensation Committee, an Affiliate may become an Employer under the Plan by delivering to the Compensation Committee a resolution of its board of directors approving such action. Such Affiliate shall become an Employer as of an effective date approved by the Compensation Committee and shall be subject to the provisions of the Plan.

9.2 Designation of Beneficiary.

(a) Each Participant may designate a Beneficiary hereunder. Such designation shall be in writing, shall be made in the form and manner prescribed by the Committee, and shall be effective only if filed with the Committee prior the Participant's death. A Participant may, at any time prior to his death, and without the consent of his Beneficiary, change his designation of Beneficiary by filing a written notice of such change with the Committee in the form and manner prescribed by the Committee. In the absence of a designated Beneficiary, or if the designated Beneficiary and any designated contingent Beneficiary predecease the Participant, the Beneficiary shall be the Participant's surviving spouse, or if the Participant has no surviving spouse, the Participant's estate. If the surviving spouse becomes the Beneficiary pursuant to this Section 9.2, but dies before receiving the entire amount due under Section 5.2, the remaining amount shall be paid to the surviving spouse's estate.

(b) If a Participant designates his spouse as his Beneficiary, that designation shall not be revoked or otherwise altered or affected by any

(i) change in the marital status of the Participant and such spouse,

(ii) agreement between the Participant and such spouse, or

(iii) judicial decree (such as a divorce decree) affecting any rights that the Participant and such spouse might have as a result of their marriage separation, or divorce, until and unless the Participant revokes and designates a Beneficiary in accordance with this Section 9.2, it being the intent of the Plan that any change in the designation of a Beneficiary hereunder may be made by the Participant only in accordance with the provision of this Section 9.2.

9.3 Incapacity.

If the Committee determines that any person entitled to benefits hereunder is unable to care for his affairs because of illness or accident, any payment due (unless a duly qualified guardian or other legal representative has been appointed) may be paid for the benefit of such person to his spouse, parent, brother, sister, or other party deemed by the Committee to have incurred expenses for such person.

9.4 Required Information.

Any person eligible to receive benefits hereunder shall furnish to the Committee any information or proof requested by the Committee and reasonably required for the proper administration of the Plan. Failure on the part of any person to comply with any such request within a reasonable period of time shall be sufficient grounds for delay in the payment of any benefits that may be due under the Plan until such information or proof is received by the Committee. If any person claiming benefits under the Plan makes a false statement that is material to such person's claim for benefits, the Committee may offset against future payments any amount paid to such person to which such person was entitled under the provisions of the Plan.

9.5 Inability to Locate Participants.

Each Participant and each Beneficiary entitled to receive a benefit under the Plan shall keep the Committee advised of his current address. If the Committee is unable to locate a Participant or Beneficiary to whom a benefit is payable under the Plan for a period of 36 months, commencing with the first day of the month as of which such benefit becomes payable, the total amount payable to such Participant or Beneficiary shall be forfeited.

9.6 No Right to Employment.

Nothing herein contained shall be deemed to give any person the right to be retained in the service of the Employer and the Affiliates or to interfere with the right of the Employer and the Affiliates to discharge any employee at any time without regard to the effect that such discharge may have upon the employee under the Plan.

9.7 Withholding Taxes.

The Committee may make any appropriate arrangements to deduct from all amounts paid under the Plan any taxes 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.

9.8 Gender and Number.

In order to shorten and to improve the understandability of the Plan document by eliminating the repeated usage of such phrases as “his or her” and “Employee or Employees,” any masculine terminology herein shall also include the feminine and neuter, and the definition of any term herein in the singular shall also include the plural, except when otherwise indicated by the context.

9.9 Heading.

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

9.10 Severability.

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

9.11 Governing Law.

The Plan shall be construed, administered, and regulated in accordance with the laws of the State of Delaware, except to the extent that such laws are pre-empted by Federal law.

9.12 Effective Date.

The Plan shall be effective as of March 1, 1999. It shall not apply to any employee who terminated employment with the Employer before that date.

Chesapeake Utilities Corporation
Ratio of Earnings to Fixed Charges

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

BUSINESS CODE OF ETHICS AND CONDUCT

Adopted December 11, 2008

Chesapeake Utilities Corporation ("Chesapeake") is committed to conducting its business in compliance with all applicable laws, rules and regulations and in accordance with the highest ethical standards. In furtherance of this commitment, the Board of Directors of Chesapeake has adopted this Business Code of Ethics and Conduct (the "Code of Ethics") setting forth the principles that govern the conduct of all employees, officers and directors of Chesapeake and its subsidiaries (collectively, the "Company").

As used herein, Company official shall mean any officer of the Company. Some provisions of this Code of Ethics also extend to the family members of employees, officers, directors, or nominees for director. For this purpose, the term "family member" shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, daughter-in-law, son-in-law, brother-in-law, or sister-in-law, and any person (other than a tenant or employee) sharing the household of any director, nominee for director, or officer of the Company. These associations include adoptive relationships.

I. Compliance with Laws, Rules, Regulations, Policies and Procedures

Each employee, officer and director is expected to understand and comply with both the letter and intent of all governmental laws, rules and regulations and with all Company policies and procedures that apply to matters for which he or she is responsible. All employees and officers are expected to participate in compliance training and information sessions when offered by the Company. **Any employee or officer who is uncertain as to the meaning or interpretation of any law, rule, regulation, policy or procedure, or its application to his or her responsibilities, is expected to seek advice from a supervisor, manager or other appropriate Company official.**

II. Conflicts of Interest

In carrying out their responsibilities, all employees, officers and directors have a duty always to act in the best interests of the Company. The ability of an employee, officer or director to fulfill this obligation can be compromised if a conflict exists between his or her personal interests and the interests of the Company. In general, a conflict of interest can arise whenever the personal interests of an employee, officer or director in a matter (financial or otherwise) would make it difficult for the individual to perform his or her Company responsibilities objectively. Even where the outcome of the matter is on terms that are entirely fair to the Company, the existence of a conflict of interest can create an appearance of impropriety.

While it is not possible to list all of the situations that could present a conflict of interest, examples include:

- Ownership of a financial interest (other than, in the case of a public company, the ownership of less than a one percent equity interest) in any business or other enterprise that does business (whether as a supplier, customer or otherwise), or is seeking to do business, with the Company.
- Serving as a director, officer or partner of, or in any other managerial role with respect to, or as a consultant to, any business or other enterprise that does business (whether as a supplier, customer or otherwise), or is seeking to do business, with the Company.
- Ownership of a financial interest in (other than, in the case of a public company, the ownership of less than a one percent equity interest), or serving as a director, officer or partner of, or in any other managerial role with respect to, or as a consultant to, any competitor of the Company.
- Acting as a broker, finder or other intermediary for the benefit of a third party in any transaction involving the Company.
- Any situation where the employee, officer or director will receive any payment of money, services, loan, guarantee or any other personal benefits from a third party in anticipation of or as a result of any transaction or business relationship between the Company and the third party.
- Taking a public position or making public statements contrary to the best interests of the Company or that could result in embarrassment to the Company.

A conflict also can exist where the person doing business, or seeking to do business with the Company is a family member of an employee, officer or director. However, the acquisition or use by an employee, officer or director of the Company of products or services obtained from the Company in the ordinary course of the Company's business will not represent a conflict of interest.

All employees and officers are encouraged to avoid relationships that have the potential for creating an actual conflict of interest or a perception of a conflict of interest. Employees and officers must be free of any conflict of interest whenever they act on behalf of the Company, including engaging in negotiations or recommending or approving a transaction, arrangement or relationship with an existing or potential customer, supplier, lender or investor. **Any officer who has a conflict of interest with respect to any matter is required to make prompt and full disclosure of the matter to the Chief Executive Officer or, in the case of the Chief Executive Officer, to the Audit Committee.** All other employees are required to make prompt and full disclosure of any conflict of interest to the Director of Internal Audit. No employee or officer is permitted to participate in any matter in which he or she has a conflict of interest unless authorized by an appropriate Company official and under circumstances that are designed to protect the interests of the Company and to avoid any appearance of impropriety.

Any officer who has a question as to whether a given situation or relationship might represent a conflict of interest is required to consult with the Chief Executive Officer. Any other employee who has a question as to whether a situation or relationship might constitute a conflict is required to consult with the Director of Internal Audit.

Directors are required to disclose any conflict of interest to the Chairman of the Board of Directors and to refrain from voting on any matter(s) in which they have a conflict.

III. Corporate Opportunities

All business opportunities that are within the existing or reasonably foreseeable scope of the Company's business, including planned business ventures, are the property of the Company. Without the prior consent of the Board of Directors, employees, officers and directors are prohibited from:

- Taking for themselves personally opportunities that they discovered through the use of Company property or information or through their position with the Company;
- Using property or information of the Company or their position with the Company for personal gain; or
- Engaging in any business in competition with the Company.

IV. Confidentiality

Employees, officers, directors and director nominees are required to maintain the confidentiality of, and not use for personal benefit, confidential information entrusted to them by the Company, its customers or its suppliers, or otherwise acquired in the course of their employment by or service to the Company. Disclosure or use of confidential information is permitted only for a proper business purpose and when specifically authorized by an appropriate Company official or as required by law or legal proceedings. Confidential information includes all information protected by law or by an agreement between the Company and a third party, as well as other non-public information that, if disclosed, might be harmful to the Company or useful to competitors, including but not limited to:

- Trade secrets and other proprietary technical information or data.
- Undisclosed financial and accounting information.
- Strategic information concerning current and future business plans.
- Pricing information.
- Customer records.
- Employee personnel records (e.g., job applications, resumes, performance evaluations and records, compensation information, notices regarding performance, termination notices, etc.).
- Research information and records.

All employees, officers and directors are required to sign a confidentiality statement.

These confidentiality and non-use restrictions continue beyond termination of service for directors, and termination of employment for employees and officers. Upon termination, employees, officers and directors are not permitted to take, copy or retain any records or documents of the Company.

V. Proper Accounting for Company Transactions

The maintenance of accurate financial and accounting records is essential in order to enable the Company to comply with the requirements of the federal securities laws and with its obligations to its shareholders.

A. Maintenance of Accurate Records

All Company assets and liabilities and all items of revenue and expense shall be properly recorded in the Company's regular books and records in accordance with generally accepted accounting principles. All employees and officers who are responsible for the recording or reporting of Company property, assets, liabilities, transactions and other activities are required to provide full, fair, accurate, timely and understandable recording or reporting thereof. Without limitation of the foregoing:

- No undisclosed or unrecorded fund or asset of the Company shall be established or maintained for any purpose.
- No employee or officer of the Company shall intentionally conceal or fail to record or report any matter that is required to be recorded or reported.
- No employee or officer of the Company shall improperly record or report any matter, or improperly alter any record or report of any matter.

B. Documentation of Disbursement of Funds

No payment or other disbursement of Company funds shall be made without proper authorization. No approval shall be granted for the payment or other disbursement of Company funds without adequate supporting documentation. No payment on behalf of the Company shall be approved or made with the intention or understanding that any part of such payment is to be used for a purpose other than that described by the documents supporting the payment.

VI. Improper Payments and Gifts to Third Parties

A. Improper Payments and Gifts.

Except for permitted gifts (as described below), neither the Company nor any employee, officer or director shall, either directly or indirectly, authorize or make any payment or gift of money or any other thing of value (including materials, equipment, facilities or services) to any:

- Current or prospective customer, supplier or competitor of the Company or to government officials; or
- Any director, officer, employee, general partner, stockholder or owner of a current or prospective customer, supplier or competitor,

if the purpose of the payment or the gift is to induce the current or prospective customer, supplier, competitor or government official improperly to grant or convey any benefit to, or forgo any claim against, the Company or any of its employees, officers or directors, or otherwise to influence a business or other decision of the current or prospective customer, supplier, competitor or government official.

B. Permitted Gifts

An employee, officer or director may make gifts, generally in the form of meals, entertainment or specialty advertising items, to Company customers, suppliers or other third parties engaged, or that may become engaged, in business with the Company if the gift meets all of the following criteria:

- It is consistent with customary business practices;
- It is not for an improper purpose;
- It is not in contravention of any applicable laws, rules, regulations or ethical standards; and
- Public disclosure of the full details of the gift would not cause embarrassment to the Company.

VII. Acceptance of Gifts or Other Personal Benefits

No employee, officer or director shall solicit from any supplier, customer or other person doing business, or seeking to do business, with the Company any gift of money, products or services, gratuity, loans or guarantees, or other personal benefits of any kind.

An employee, officer or director, including their family members, may accept an unsolicited gift or gratuity of nominal value or reasonable business entertainment (including recreation and attendance of sporting or cultural events) if the gift or gratuity meets all of the following criteria:

- It does not go beyond common courtesies usually associated with accepted business practices;
- It does not interfere with the recipient's independence or judgment in carrying out his or her responsibilities on behalf of the Company; and
- Public disclosure of the full details of the gift or gratuity would not cause embarrassment to the Company.

Any gifts or gratuity that do not meet these requirements must to the extent possible be returned.

VIII. Relationships with Customers

When dealing with customers, the Company is committed to:

- Providing all customers with exceptional service;
- Dealing fairly and ethically with all customers and treating customers with respect;
- Providing customers with accurate and clear information regarding the services offered by the Company; and
- Investigating promptly and resolving on fair terms all customer complaints and inquiries.

Each employee, officer and director has a responsibility to use his or her best efforts to ensure that these objectives are attained. The Company prohibits manipulation, misrepresentation of facts, and other forms of unfair dealing with customers.

IX. Relationships with Suppliers

When dealing with suppliers of products and services to the Company, all employees, officers and directors are required at all times to act in the best interests of the Company, while at the same time adhering to the highest standards of ethical conduct. All unlawful behavior, manipulation, misrepresentation of facts, or any other forms of unfair dealing are prohibited.

X. Fair Competition

The Company is committed to fair and honest competition. The Company seeks to achieve its competitive advantage through competitive prices, products and services, and not through illegal or unethical business practices. All employees, officers and directors are required to adhere to all laws and regulations regarding fair competition, including antitrust laws. Misappropriation of trade secrets or other proprietary information, manipulation, misrepresentation of facts and all other forms of unfair dealing are prohibited.

XI. Relationships with Employees

All employees and officers are entitled to work in an environment free of discrimination and harassment, therefore the Company strives to provide each employee and officer with a workplace that is free from unlawful discrimination or harassment. It is the policy of the Company to provide equal employment opportunity to qualified individuals regardless of race, religion, gender, national origin, age, or their status as disabled veterans or as disabled individuals. Equal opportunity applies to all aspects of the employment relationship, including initial employment, promotion, training, wage and salary administration, seniority, retirement, and employee benefits.

XII. Protection and Proper Use of Company Assets

Proper protection and proper use of Company assets is the responsibility of each employee, officer and director. Employees, officers and directors are required to promote the efficient use of Company assets and to take appropriate security measures to safeguard physical property and other assets against unauthorized use or removal, as well as against loss by wrongful acts or negligence. Employees, officers and directors may use Company property only for legitimate business purposes and strictly in accordance with established Company policies and guidelines.

XIII. Insider Trading

All employees, officers and directors are required to adhere to the Company's policy entitled "Securities Trades by Company Personnel", which governs trading by employees, officers and directors in Chesapeake stock.

XIV. Political Activities

Employees, officers and directors are free to participate in lawful political activities on their own time and at their own expense, and to make personal contributions to political parties, committees or candidates of their choice. However, under no circumstances shall an employee, officer or director use Company facilities or assets, or be compensated or reimbursed by the Company, for their personal political activities or contributions.

While employees and officers are encouraged to participate in civic and community activities during their non-work hours, an employee's or officer's determination to seek elected or appointed public office, including membership on a public board or commission ("public office"), raises special concerns. Because the Company's business frequently interfaces with many government branches, employees, officers and directors would have a responsibility to disqualify themselves from any action in which they know the Company has an interest. In addition, care must be taken that campaigning for office or fulfilling public responsibilities is not done during work hours. Accordingly, any employee or officer who wishes to seek or accept public office must provide the Director of Internal Audit with reasonable advance notice of that intent. In certain cases, depending on the nature of the office and other surrounding circumstances, the Company may decide that the employee or officer should not seek or accept such office while remaining in the Company's employment without a determination by the Company's Chief Executive Officer (or in the case of the Chief Executive Officer, the Board of Directors) that such activities will be consistent with Company policies and applicable laws and standards.

XV. Compliance Procedures

A. Distribution of this Code of Ethics

A copy of this Code of Ethics shall be furnished to each employee, officer and director of the Company and shall be posted on the Company's website. Company officers are required to ensure that all Company personnel in the departments for which they are responsible receive a copy.

Any employee who has a question concerning the interpretation or application of any provision of this Code of Ethics should consult his or her immediate manager, who may, if necessary, refer the question to the Director of Internal Audit or an appropriate Company official. Alternatively, any employee, officer or director may contact the Director of Internal Audit directly.

B. Reporting Violations

Any employee or officer who has knowledge of a violation by the Company or any employee, officer or director of any law, rule or regulation or this Code of Ethics, or suspects that such a violation has occurred, is required to report the matter to an independent third party via a dedicated toll-free hotline or a secure website, or in written form directly to the Director of Internal Audit in accordance with the process set forth on the Company's website (www.chpk.com). All valid concerns will be investigated under the direction of the Chairman of the Audit Committee.

The Company will make every effort, within the limits allowed by law, to keep confidential the identity of anyone requesting guidance or reporting a violation or suspected violation. However, it may not be possible to maintain the confidentiality of the reported person or the reported information if (i) disclosure is necessary to enable the Company or law enforcement officials to investigate the matter, (ii) disclosure is required by law or (iii) the person accused of a violation is entitled to the information as a matter of legal right. All employees, officers and directors are expected to cooperate, to the extent requested, in any investigation of any violation of any law, rule or regulation or this Code of Ethics.

No adverse action will be taken against any person who in good faith reports a violation, or a suspected violation, by the Company, or any employee, officer or director of any law, rule or regulation or this Code of Ethics. Any such retaliation is also a violation of this Code of Ethics and will be grounds for disciplinary action against the person or persons who engage in retaliation. Any employee, officer or director who believes that he or she has been retaliated against may file a complaint with the Director of Internal Audit, who shall be responsible for the investigation of the matter.

C. Violations

Any employee, officer or director who fails to comply with any applicable law, rule, or regulation or with this Code of Ethics is subject to disciplinary action, which could include, without limitation, a reprimand, probation, suspension, reduction in salary, demotion or dismissal — depending upon the seriousness of the offense.

XVI. Amendments and Waivers

The Board of Directors must approve any amendment to this Code of Ethics. No waivers or exceptions to this Code of Ethics are anticipated; however, any waiver of any provision to this Code of Ethics for employees, other than executive officers, requires the approval of the Chief Executive Officer. Any waiver involving an executive officer or director requires the approval of the Board of Directors or a designated Board Committee and must be promptly disclosed to shareholders in the manner determined appropriate by the Board of Directors or as otherwise required by law or the rules of the New York Stock Exchange.

EXHIBIT 21

Chesapeake Utilities Corporation
Subsidiaries of the Registrant

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

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

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

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Chesapeake Utilities Corporation

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

/s/ Beard Miller Company LLP
Beard Miller Company LLP
Reading, Pennsylvania
March 9, 2009

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Chesapeake Utilities Corporation

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

/s/ PricewaterhouseCoopers LLP
PRICEWATERHOUSECOOPERS LLP
Boston, Massachusetts
March 9, 2009

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

I, John R. Schimkaitis, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 9, 2009

/s/ John R. Schimkaitis
John R. Schimkaitis
President and Chief Executive Officer

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

I, Beth W. Cooper, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: March 9, 2009

/s/ BETH W. COOPER

Beth W. Cooper
Senior Vice President and Chief Financial Officer

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

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

/s/ John R. Schimkaitis
John R. Schimkaitis
March 9, 2009

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

Exhibit 32.2

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

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

/s/ Beth W. Cooper
Beth W. Cooper
March 9, 2009

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