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

FORM 10-Q

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

For the quarterly period ended: March 31, 2019

OR

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

For the transition period from _________ to _________

Commission File Number: 001-11590

CHESAPEAKE UTILITIES CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock - par value per share $0.4867	CPK	New York Stock Exchange, Inc.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
☐

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

Common Stock, par value $0.4867 — 16,397,017 shares outstanding as of April 30, 2019.

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GLOSSARY OF DEFINITIONS

ASC: Accounting Standards Codification issued by the FASB

ASU: Accounting Standards Update issued by the FASB

CDD: Cooling degree-day, which is a measure of the variation in weather based on the extent to which the daily average temperature (from 10:00 am to 10:00 am) is above 65 degrees Fahrenheit

Chesapeake or Chesapeake Utilities: Chesapeake Utilities Corporation, and its direct and indirect subsidiaries, as appropriate in the context of the disclosure

CHP: Combined heat and power plant

Company: Chesapeake Utilities Corporation, and its direct and indirect subsidiaries, as appropriate in the context of the disclosure

Degree-Day: 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 above or below 65 degrees Fahrenheit

Delmarva Peninsula: A peninsula on the east coast of the U. S. occupied by Delaware and portions of Maryland and Virginia

Dt(s): Dekatherm(s), which is a natural gas unit of measurement that includes a standard measure for heating value

Dts/d: Dekatherms per day

Eastern Shore: Eastern Shore Natural Gas Company, a wholly-owned subsidiary of Chesapeake Utilities

Eight Flags: Eight Flags Energy, LLC, a subsidiary of Chesapeake OnSight Services, LLC

FASB: Financial Accounting Standards Board

FERC: Federal Energy Regulatory Commission

FPU: Florida Public Utilities Company, a wholly-owned subsidiary of Chesapeake Utilities

GAAP: Accounting principles generally accepted in the United States of America

GRIP: Gas Reliability Infrastructure Program

Gross Margin: a non-GAAP measure defined as operating revenues less the cost of sales. The Company's cost of sales includes purchased fuel cost for natural gas, electricity and propane and the cost of labor spent on direct revenue-producing activities and excludes depreciation, amortization and accretion

Gulfstream: Gulfstream Natural Gas System, LLC, an unaffiliated pipeline network that supplies natural gas to FPU

HDD: Heating Degree-Day

Marlin Gas Services: Marlin Gas Services, LLC, a newly created subsidiary of Chesapeake Utilities that acquired certain operating assets of Marlin Gas Transport, Inc.

Marlin Gas Transport: Marlin Gas Transport, Inc., a supplier of mobile compressed natural gas utility and pipeline solutions

MetLife: MetLife Investment Advisors, an institutional debt investment management firm, with which we entered into the MetLife Shelf Agreement

MGP: Manufactured gas plant, which is a site where coal was previously used to manufacture gaseous fuel for industrial, commercial and residential use

MTM: Mark-to-Market (fair value accounting)

NYL: New York Life Investors LLC, an institutional debt investment management firm, with which Chesapeake Utilities entered into a Shelf Agreement

Peninsula Pipeline: Peninsula Pipeline Company, Inc., a wholly-owned subsidiary of Chesapeake Utilities

PESCO: Peninsula Energy Services Company, Inc., a wholly-owned subsidiary of Chesapeake Utilities

Prudential: Prudential Investment Management Inc., an institutional investment management firm, with which Chesapeake Utilities has entered into a Shelf Agreement and issued Shelf Notes

PSC: Public Service Commission, which is the state agency that regulates utility rates and/or services in certain of our jurisdictions

Retirement Savings Plan: A qualified 401(k) retirement savings plan sponsored by Chesapeake Utilities

Revolver: Our unsecured revolving credit facility with certain lenders

Sandpiper: Sandpiper Energy, Inc., a wholly-owned subsidiary of Chesapeake Utilities

SEC: U.S. Securities and Exchange Commission

Senior Notes: Our unsecured long-term debt issued primarily to insurance companies on various dates

Sharp: Sharp Energy, Inc., a wholly-owned subsidiary of Chesapeake Utilities

Shelf Agreement: An agreement entered into by Chesapeake Utilities and a counterparty pursuant to which Chesapeake Utilities may request that the counterparty purchase our unsecured senior debt with a fixed interest rate and a maturity date not to exceed 20 years from the date of issuance

Shelf Notes: Unsecured senior promissory notes issuable under the Shelf Agreement executed with various counterparties

SICP: 2013 Stock and Incentive Compensation Plan

TCJA: Tax Cuts and Jobs Act enacted on December 22, 2017

TETLP: Texas Eastern Transmission, LP, an interstate pipeline interconnected with Eastern Shore's pipeline

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Income (Unaudited)

(in thousands, except shares and per share data)	Three Months Ended March 31, 2019	2018
Operating Revenues		
Regulated Energy	$ 103,618	$ 109,393
Unregulated Energy and other	123,998	129,963
Total Operating Revenues	227,616	239,356
Operating Expenses		
Regulated Energy cost of sales	36,516	48,231
Unregulated Energy and other cost of sales	89,703	99,826
Operations	37,144	32,702
Maintenance	3,681	3,593
Depreciation and amortization	11,074	9,704
Other taxes	5,505	4,894
Total Operating Expenses	183,623	198,950
Operating Income	43,993	40,406
Other income (expense), net	(45)	68
Interest charges	5,710	3,664
Income Before Income Taxes	38,238	36,810
Income taxes	9,574	9,955
Net Income	$ 28,664	$ 26,855
Weighted Average Common Shares Outstanding:		
Basic	16,384,927	16,351,338
Diluted	16,432,852	16,402,985
Earnings Per Share of Common Stock:		
Basic	$ 1.75	$ 1.64
Diluted	$ 1.74	$ 1.64

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(in thousands)	**2019**	**2018**
Net Income	**$ 28,664**	$ 26,855
Other Comprehensive Income (Loss), net of tax:		
Employee Benefits, net of tax:		
Amortization of prior service cost, net of tax of $(5) and $(5), respectively	**(14)**	(14)
Net gain, net of tax of $42 and $41, respectively	**121**	108
Cash Flow Hedges, net of tax:		
Unrealized gain (loss) on commodity contract cash flow hedges, net of tax of $1,194 and $(756), respectively	**2,982**	(1,788)
Total Other Comprehensive Income (Loss), net of tax	**3,089**	(1,694)
Comprehensive Income	**$ 31,753**	$ 25,161

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

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Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Assets		March 31, 2019		December 31, 2018
(in thousands, except shares and per share data)				
Property, Plant and Equipment				
Regulated Energy	$	1,346,221	$	1,297,416
Unregulated Energy		241,126		237,682
Other businesses and eliminations		30,282		34,585
Total property, plant and equipment		1,617,629		1,569,683
Less: Accumulated depreciation and amortization		(312,949)		(294,295)
Plus: Construction work in progress		90,453		108,584
Net property, plant and equipment		1,395,133		1,383,972
Current Assets				
Cash and cash equivalents		7,975		6,089
Trade and other receivables (less allowance for uncollectible accounts of $1,054 and $1,108, respectively)		74,098		85,404
Accrued revenue		20,747		27,499
Propane inventory, at average cost		6,865		9,791
Other inventory, at average cost		8,122		7,127
Regulatory assets		7,913		4,796
Storage gas prepayments		1,327		6,603
Income taxes receivable		9,059		15,300
Prepaid expenses		7,192		10,079
Derivative assets, at fair value		9,221		13,165
Other current assets		1,121		5,684
Total current assets		153,640		191,537
Deferred Charges and Other Assets				
Goodwill		25,785		25,837
Other intangible assets, net		5,909		6,207
Investments, at fair value		7,509		6,711
Operating lease right-of-use assets (refer to Note 15)		12,523		—
Regulatory assets		77,101		72,422
Other assets		5,197		6,985
Total deferred charges and other assets		134,024		118,162
Total Assets	$	1,682,797	$	1,693,671

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

Capitalization and Liabilities	March 31, 2019	December 31, 2018
(in thousands, except shares and per share data)		
Capitalization		
Stockholders' equity		
Preferred stock, par value $0.01 per share (authorized 2,000,000 shares), no shares issued and outstanding	**$ —**	$ —
Common stock, par value $0.4867 per share (authorized 50,000,000 shares)	**7,980**	7,971
Additional paid-in capital	**255,307**	255,651
Retained earnings	**284,111**	261,530
Accumulated other comprehensive loss	**(3,739)**	(6,713)
Deferred compensation obligation	**4,376**	3,854
Treasury stock	**(4,376)**	(3,854)
Total stockholders' equity	**543,659**	518,439
Long-term debt, net of current maturities	**285,998**	316,020
Total capitalization	**829,657**	834,459
Current Liabilities		
Current portion of long-term debt	**71,509**	11,935
Short-term borrowing	**276,393**	294,458
Accounts payable	**75,277**	129,804
Customer deposits and refunds	**29,710**	34,155
Accrued interest	**4,505**	2,317
Dividends payable	**6,067**	6,060
Accrued compensation	**8,506**	13,923
Regulatory liabilities	**15,085**	7,883
Derivative liabilities, at fair value	**6,798**	14,871
Other accrued liabilities	**14,719**	12,828
Total current liabilities	**508,569**	528,234
Deferred Credits and Other Liabilities		
Deferred income taxes	**160,912**	156,820
Regulatory liabilities	**132,686**	135,039
Environmental liabilities	**7,370**	7,638
Other pension and benefit costs	**29,822**	28,513
Operating lease - liabilities (refer to Note 15)	**10,873**	—
Deferred investment tax credits and other liabilities	**2,908**	2,968
Total deferred credits and other liabilities	**344,571**	330,978
Environmental and other commitments and contingencies (Notes 5 and 6)		
Total Capitalization and Liabilities	**$ 1,682,797**	$ 1,693,671

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2019	**2018**
(in thousands)		
Operating Activities		
Net income	**$ 28,664**	$ 26,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**11,074**	9,704
Depreciation and accretion included in other costs	**2,135**	2,276
Deferred income taxes	**3,430**	6,469
Realized (gain) loss on commodity contracts/sale of assets/investments	**(363)**	3,416
Unrealized (gain) loss on investments/commodity contracts	**(721)**	44
Employee benefits and compensation	**382**	228
Share-based compensation	**487**	1,520
Other, net	**—**	(12)
Changes in assets and liabilities:		
Accounts receivable and accrued revenue	**18,147**	9,649
Propane inventory, storage gas and other inventory	**7,207**	12,448
Regulatory assets/liabilities, net	**3,121**	11,511
Prepaid expenses and other current assets	**11,873**	8,095
Accounts payable and other accrued liabilities	**(44,783)**	(26,932)
Income taxes receivable	**6,241**	8,741
Customer deposits and refunds	**(4,445)**	44
Accrued compensation	**(5,548)**	(7,731)
Other assets and liabilities, net	**3,585**	347
Net cash provided by operating activities	**40,486**	66,672
Investing Activities		
Property, plant and equipment expenditures	**(43,216)**	(63,116)
Proceeds from sales of assets	**115**	193
Environmental expenditures	**(268)**	(48)
Net cash used in investing activities	**(43,369)**	(62,971)
Financing Activities		
Common stock dividends	**(5,877)**	(5,147)
Issuance of stock under the Dividend Reinvestment Plan	**(183)**	(164)
Tax withholding payments related to net settled stock compensation	**(692)**	(719)
Change in cash overdrafts due to outstanding checks	**84**	2,352
Net repayment under line of credit agreements	**(18,149)**	(24,213)
Proceeds from long-term debt	**30,000**	25,000
Repayment of long-term debt, long-term borrowing under the Revolver and capital lease obligation	**(414)**	(428)
Net cash provided (used) by financing activities	**4,769**	(3,319)
Net Increase in Cash and Cash Equivalents	**1,886**	382
Cash and Cash Equivalents—Beginning of Period	**6,089**	5,614
Cash and Cash Equivalents—End of Period	**$ 7,975**	$ 5,996

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

Chesapeake Utilities Corporation and Subsidiaries

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

	Common Stock (1)								
(in thousands, except shares and per share data)	Number of Shares(2)	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Deferred Compensation	Treasury Stock	Total
Balance at December 31, 2017	**16,344,442**	**$ 7,955**	**$ 253,470**	**$ 229,141**	**$ (4,272)**	**$ 3,395**	**$ (3,395)**	**$ 486,294**
Net income	—	—	—	26,855	—	—	—	26,855
Cumulative effect of the adoption of ASU 2014-09	—	—	—	(1,498)	—	—	—	(1,498)
Reclassification upon the adoption of ASU 2018-02	—	—	—	907	(907)	—	—	—
Other comprehensive loss	—	—	—	—	(1,694)	—	—	(1,694)
Dividend declared ($.3250 per share)	—	—	—	(5,381)	—	—	—	(5,381)
Dividend reinvestment plan	—	—	(1)	—	—	—	—	(1)
Share-based compensation and tax benefit (3)(4)	19,350	9	657	—	—	—	—	666
Treasury stock activities	—	—	—	—	—	178	(178)	—
Balance at March 31, 2018	**16,363,792**	**$ 7,964**	**$ 254,126**	**$ 250,024**	**$ (6,873)**	**$ 3,573**	**$ (3,573)**	**$ 505,241**
Balance at December 31, 2018	**16,378,545**	**$ 7,971**	**$ 255,651**	**$ 261,530**	**$ (6,713)**	**$ 3,854**	**$ (3,854)**	**$ 518,439**
Net income	—	—	—	28,664	—	—	—	28,664
Prior period reclassification	—	—	—	115	(115)	—	—	—
Other comprehensive income	—	—	—	—	3,089	—	—	3,089
Dividend declared ($0.3700 per share)	—	—	—	(6,198)	—	—	—	(6,198)
Dividend reinvestment plan	—	—	(1)	—	—	—	—	(1)
Share-based compensation and tax benefit (3) (4)	18,472	9	(343)	—	—	—	—	(334)
Treasury stock activities	—	—	—	—	—	522	(522)	—
Balance at March 31, 2019	**16,397,017**	**$ 7,980**	**$ 255,307**	**$ 284,111**	**$ (3,739)**	**$ 4,376**	**$ (4,376)**	**$ 543,659**

(1) 2,000,000 shares of preferred stock at $0.01 par value have been authorized. None has been issued or is outstanding; accordingly, no information has been included in the statements of stockholders' equity.

(2) Includes 101,997 shares at March 31, 2019, 97,053 shares at December 31, 2018, 93,422 shares at March 31, 2018 and 90,961 shares at December 31, 2017, respectively, held in a Rabbi Trust related to our Non-Qualified Deferred Compensation Plan.

(3) Includes amounts for shares issued for directors' compensation.

(4) The shares issued under the SICP are net of shares withheld for employee taxes. For the three months ended March 31, 2019 and 2018, we withheld 7,635 and 10,436 shares, respectively, for taxes.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Summary of Accounting Policies

Basis of Presentation

References in this document to the "Company," "Chesapeake Utilities," "we," "us" and "our" are intended to mean Chesapeake Utilities Corporation, its divisions and/or its subsidiaries, as appropriate in the context of the disclosure.

The accompanying unaudited condensed consolidated financial statements have been prepared in compliance with the rules and regulations of the SEC and GAAP. In accordance with these rules and regulations, certain information and disclosures normally required for audited financial statements have been condensed or omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto, included in our latest Annual Report on Form 10-K for the year ended December 31, 2018. In the opinion of management, these financial statements reflect normal recurring adjustments that are necessary for a fair presentation of our results of operations, financial position and cash flows for the interim periods presented.

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

Marlin Gas Transport and Ohl Fuel Oil Acquisitions

In December 2018, Marlin Gas Services acquired certain operating assets of Marlin Gas Transport. The acquisition will enable us to offer solutions to supply interruption scenarios and tailor other alternatives where pipeline supplies are unavailable or inadequate to meet customer requirements.

In December 2018, Sharp acquired certain propane operating assets and customers of R. F. Ohl Fuel Oil, Inc. ("Ohl"), which provided propane distribution service to approximately 2,500 residential and commercial customers in Pennsylvania.

We accounted for the purchases of the operating assets of Marlin Gas Transport and Ohl, which totaled approximately $18.4 million, as business combinations within our Unregulated Energy segment. Goodwill of $4.8 million, related to the Marlin Gas Transport acquisition, and $1.5 million, associated with the Ohl acquisition, were initially recorded at the close of these transactions. The amounts recorded in conjunction with these acquisitions are preliminary and subject to adjustment based on additional valuations performed during the measurement period. Due to the timing of these acquisitions, the revenue and net income from these acquisitions in 2018 were immaterial. For the quarter ended March 31, 2019, these acquisitions generated the following operating revenue and income:

	Three Months Ended March 31, 2019	
	Operating Revenue	Operating Income
(in thousands)		
Marlin Gas Services	$ 2,434	$ 1,375
Ohl	$ 822	$ 273

FASB Statements and Other Authoritative Pronouncements

Recently Adopted Accounting Standards

Leases (ASC 842) - In February 2016, the FASB issued ASU 2016-02, *Leases,* which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The standard establishes a right of use model that requires a lessee to recognize a right of use asset and lease liability for all leases with a term greater than 12 months. The update also expands the required quantitative and qualitative disclosures surrounding leases. ASC 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU No. 2018-10, *Codification Improvements to Topic 842, Lease*s; ASU No. 2018-11, *Targeted Improvements*; and ASU No. 2019-01, *Codification Improvements*. We adopted ASU 2016-02 and the related amendments on January 1, 2019, and used the optional transition method for all existing leases. The optional transition method enables us to adopt the new standard as of the beginning of the period of adoption and does not require restatement of prior period financial information. As a result, prior period financial information has not been recast and continues to be reported under the accounting guidance that was effective during those periods.

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At adoption, we elected the following practical expedients: (1) the 'package of practical expedients,' pursuant to which we did not need to reassess our prior conclusions about lease identification, lease classification and initial direct costs, (2) the 'use-of-hindsight' practical expedient, which allowed us to use hindsight in assessing impairment of our existing land easements, (3) creation of an accounting policy for short-term leases resulting in lease payments being recorded as an expense on a straight-line basis over the lease term, and (4) to not separate lease and non-lease components for all leases.

See Note 15, *Leases,* for additional information with respect to the impact of the adoption of the lease accounting guidance and the disclosures required by ASU 2016-02 and the related amendments.

Compensation - Stock Compensation (ASC 718) - In June 2018, the FASB issued ASU 2018-07, *Improvements to Nonemployee Share-Based Payment Accounting*, which expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. We adopted ASU 2018-07 on January 1, 2019. Implementation of this new standard did not have a material impact on our financial position or results of operations.

Recent Accounting Standards Yet to be Adopted

Intangibles-Goodwill (ASC 350) - In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 will be effective for our annual and interim financial statements beginning January 1, 2020, although early adoption is permitted. The amendments included in this ASU are to be applied prospectively. We believe that implementation of this new standard will not have a material impact on our financial position or results of operations.

Fair Value Measurement (ASC 820) - In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement*, which removes, modifies and adds certain disclosure requirements on fair value measurements in ASC 820. ASU 2018-13 will be effective for our annual and interim financial statements beginning January 1, 2020 and, since the changes only impact disclosures, will not have a material impact on our financial position or results of operations.

2. Calculation of Earnings Per Share

	Three Months Ended March 31,	
	2019	**2018**
(in thousands, except shares and per share data)		
Calculation of Basic Earnings Per Share:		
Net Income	**$ 28,664**	$ 26,855
Weighted average shares outstanding	**16,384,927**	16,351,338
Basic Earnings Per Share	**$ 1.75**	$ 1.64
Calculation of Diluted Earnings Per Share:		
Reconciliation of Numerator:		
Net Income	**$ 28,664**	$ 26,855
Reconciliation of Denominator:		
Weighted shares outstanding—Basic	**16,384,927**	16,351,338
Effect of dilutive securities—Share-based compensation	**47,925**	51,647
Adjusted denominator—Diluted	**16,432,852**	16,402,985
Diluted Earnings Per Share	**$ 1.74**	$ 1.64

3. Revenue Recognition

We recognize revenue when our performance obligations under contracts with customers have been satisfied, which generally occurs when our businesses have delivered or transported natural gas, electricity or propane to customers. We exclude sales taxes and other similar taxes from the transaction price. Typically, our customers pay for the goods and/or services we provide in the month following the satisfaction of our performance obligation.

The following table displays our revenue by major source based on product and service type for the three months ended March 31, 2019 and 2018:

	Three months ended March 31, 2019				Three Months Ended March 31, 2018			
(in thousands)	Regulated Energy	Unregulated Energy	Other and Eliminations	Total	Regulated Energy	Unregulated Energy	Other and Eliminations	Total
Energy distribution								
Delaware natural gas division	**$ 27,549**	**$ —**	**$ —**	**$ 27,549**	$ 32,072	$ —	$ —	$ 32,072
Florida natural gas division	**7,900**	**—**	**—**	**7,900**	5,864	—	—	5,864
FPU electric distribution	**14,378**	**—**	**—**	**14,378**	18,741	—	—	18,741
FPU natural gas distribution	**23,786**	**—**	**—**	**23,786**	23,213	—	—	23,213
Maryland natural gas division	**10,047**	**—**	**—**	**10,047**	10,672	—	—	10,672
Sandpiper natural gas/propane operations	**7,082**	**—**	**—**	**7,082**	8,964	—	—	8,964
Total energy distribution	**90,742**	**—**	**—**	**90,742**	99,526	—	—	99,526
Energy transmission								
Aspire Energy	**—**	**13,470**	**—**	**13,470**	—	12,077	—	12,077
Eastern Shore	**19,056**	**—**	**—**	**19,056**	15,597	—	—	15,597
Peninsula Pipeline	**3,565**	**—**	**—**	**3,565**	2,098	—	—	2,098
Total energy transmission	**22,621**	**13,470**	**—**	**36,091**	17,695	12,077	—	29,772
Energy generation								
Eight Flags	**—**	**4,142**	**—**	**4,142**	—	4,378	—	4,378
Propane operations								
Propane delivery operations	**—**	**46,125**	**—**	**46,125**	—	52,104	—	52,104
Energy services								
Marlin Gas Services	**—**	**2,434**	**—**	**2,434**	—	—	—	—
PESCO - Natural Gas Marketing	**—**	**77,022**	**—**	**77,022**		81,559	—	81,559
Total energy services	**—**	**79,456**	**—**	**79,456**	—	81,559	—	81,559
Other and eliminations								
Eliminations	**(9,745)**	**(5,496)**	**(14,236)**	**(29,477)**	(7,828)	(5,245)	(15,598)	(28,671)
Other	**—**	**405**	**132**	**537**	—	494	194	688
Total other and eliminations	**(9,745)**	**(5,091)**	**(14,104)**	**(28,940)**	(7,828)	(4,751)	(15,404)	(27,983)
Total operating revenues [1]	**$ 103,618**	**$ 138,102**	**$ (14,104)**	**$ 227,616**	**$ 109,393**	**$ 145,367**	**$ (15,404)**	**$ 239,356**

[1] Total operating revenues for the three months ended March 31, 2019, include other revenue (revenues from sources other than contracts with customers) of $121,000 and $84,000 for our Regulated and Unregulated Energy segments, respectively and $(589,000) and $73,000 for our Regulated and Unregulated Energy segments, respectively, for the three months ended March 31, 2018. The sources of other revenues include revenue from alternative revenue programs related to revenue normalization for the Maryland division and Sandpiper and late fees.

Contract balances

The timing of revenue recognition, customer billings and cash collections results in trade receivables, unbilled receivables (contract assets), and customer advances (contract liabilities) in our condensed consolidated balance sheets. The balances of our trade receivables, contract assets, and contract liabilities as of December 31, 2018 and March 31, 2019 were as follows:

(in thousands)	Trade Receivables	Contract Assets (Non-current)	Contract Liabilities (Current)
Balance at 12/31/2018	$ 83,214	$ 2,614	$ 480
Balance at 3/31/2019	**72,162**	**3,004**	**305**
Increase (decrease)	$ (11,052)	$ 390	$ (175)

Our trade receivables are included in trade and other receivables in the condensed consolidated balance sheets. Our non-current contract assets are included in other assets in the condensed consolidated balance sheet and relate to operations and maintenance costs incurred by Eight Flags that have not yet been recovered through rates for the sale of electricity to our electric distribution operation pursuant to a long-term service agreement.

At times, we receive advances or deposits from our customers before we satisfy our performance obligation, resulting in contract liabilities. At March 31, 2019 and December 31, 2018, we had a contract liability of $305,000 and $480,000, respectively, which was included in other accrued liabilities in the condensed consolidated balance sheet, and which relates to non-refundable prepaid fixed fees for our Delmarva Peninsula propane delivery operation's retail offerings. Our performance obligation is satisfied over the term of the respective retail offering plan on a ratable basis. For the three months ended March 31, 2019 and 2018, we recognized revenue of $287,000 and $251,000, respectively.

Remaining performance obligations

Our businesses have long-term fixed fee contracts with customers in which revenues are recognized as performance obligations are satisfied over the contract term. Revenue for these businesses for the remaining performance obligations at March 31, 2019 are expected to be recognized as follows:

(in thousands)	2019	2020	2021	2022	2023	2024	2025 and thereafter
Eastern Shore and Peninsula Pipeline	$ 28,754	$ 36,791	$ 33,510	$ 26,566	$ 21,146	$ 18,969	$ 193,651
Natural gas distribution operations	2,999	3,587	3,358	3,320	2,924	2,910	27,916
PESCO - Natural Gas Marketing	4,435	4,585	1,706	22	—	—	—
FPU electric distribution	223	297	297	109	—	—	—
Total revenue contracts with remaining performance obligations	$ 36,411	$ 45,260	$ 38,871	$ 30,017	$ 24,070	$ 21,879	$ 221,567

4. Rates and Other Regulatory Activities

Our natural gas and electric distribution operations in Delaware, Maryland and Florida are subject to regulation by their respective PSC; Eastern Shore, our natural gas transmission subsidiary, is subject to regulation by the FERC; and Peninsula Pipeline, our intrastate pipeline subsidiary, is subject to regulation by the Florida PSC.

Delaware

Effect of the TCJA on Customers: On January 31, 2019, the Delaware PSC approved the as-filed Delaware Division Delivery Service Rates reflecting the impact of the TCJA. The new rates went into effect March 1, 2019, and we will have to complete refunds retroactive to February 2018, by June 30, 2019. The order also provided for a line item billing credit that went into effect on April 1, 2019, for the return of the excess accumulated deferred income taxes ("ADIT"). Additional information on the TCJA impact is included in the table at the end of this Note 4, *Rates and Other Regulatory Activities*.

Weather Normalization Adjustment: In January 2019, we filed with the Delaware PSC an application requesting approval to implement a weather normalization adjustment. The proposed weather normalization adjustment will provide either a billing credit (during colder than normal weather) or surcharge (during warmer than normal weather) designed to produce natural gas bills for customers that reflect normal temperatures. The weather normalization adjustment will ensure we do not over or under-collect Delaware PSC authorized levels of distribution revenues due to weather variability. The Delaware PSC issued an order on March 19, 2019 to open a docket and formally review the case.

Florida

Electric Limited Proceeding-Storm Recovery: In February 2018, FPU filed a petition with the Florida PSC, requesting recovery of incremental storm restoration costs related to several hurricanes and tropical storms, along with the replenishment of the storm reserve to its pre-storm level of $1.5 million. As a result of these hurricanes and tropical storms, FPU's storm reserve was depleted and, at the time of this filing, had a deficit of $779,000. This matter went to hearing in December 2018 and was subsequently approved at the March 5, 2019 Agenda with the Final Order issued on March 25, 2019. FPU received approval to begin a surcharge of $1.54 per 1,000 kilowatt hour on customer bills for two years beginning in April 2019, to recover storm-related costs and replenish the storm reserve.

Hurricane Michael: In October 2018, Hurricane Michael passed through FPU's electric distribution operation's service territory in Northwest Florida. The hurricane caused widespread and severe damage to FPU's infrastructure resulting in 100 percent of its customers losing electrical service. FPU, after exerting extraordinary hurricane restoration efforts, restored service to those customers who were able to accept it. FPU expended more than $65.0 million to restore service, which has been recorded as new plant and equipment or charged against FPU's storm reserve. In conjunction with the hurricane-related expenditures, we executed two 13-month unsecured term loans as temporary financing, each in the amount of $30 million. The interest cost associated with these loans is LIBOR plus 75 points. One of the term loans was executed in December 2018; the other was executed in January 2019. While there is a short-term negative impact, the storm is not expected to have a significant impact going forward, assuming reasonable regulatory treatment. We have begun preparing the necessary regulatory filings to seek recovery of the costs incurred, including the financing costs for the temporary debt issued to fund the new plant and equipment.

Effect of the TCJA on Customers: In February 2018, the Florida PSC opened dockets to consider the impacts associated with the TCJA. In May 2018, FPU's natural gas divisions filed petitions and supporting testimony regarding the disposition of the related impacts of the TCJA. Hearings on this matter took place in November 2018, and the staff's recommendation was approved by the Florida PSC at the February 5, 2019 Agenda. Final orders were issued on February 25, 2019. Staff's recommendations are summarized in the table at the end of this Note 4, *Rates and Other Regulatory Activities*.

Imbalance Petition: In February 2019, FPU filed a petition, with the Florida PSC, to modify the pool manager cash out tiers and respective cash out rates. With this petition, FPU further facilitates consistency across the Florida business units and eliminates the unintentional arbitrage opportunity created by the tariff. The petition does not have a financial impact for FPU, and it will benefit customers by lowering costs. This petition was approved by the Florida PSC at the April 2, 2019 Agenda.

Maryland Division and Sandpiper

There were no material regulatory matters during the quarter.

Eastern Shore

Del-Mar Energy Pathway Project: In September 2018, Eastern Shore filed a Certificate Application with the FERC, requesting authorization to construct and operate the Del-Mar Energy Pathway project, which will provide an additional 14,300 Dts/d of firm service to four customers. Facilities to be constructed include six miles of pipeline looping in Delaware; 13 miles of new mainline extension in Sussex County, Delaware and Somerset County, Maryland; and new pressure control and delivery stations in these counties. The benefits of this project include: (i) additional natural gas transmission pipeline infrastructure in eastern Sussex County, Delaware, and (ii) extension of Eastern Shore's pipeline system, for the first time, into Somerset County, Maryland. During the fourth quarter of 2018, the FERC held a full project area scoping meeting in Sussex County, Delaware and issued a Notice of Schedule for Environmental Review. The Environmental Assessment for the Del-Mar Energy Pathway project was issued on April 1, 2019. As of the date of this filing, final FERC authorization was still pending.

Summary TCJA Table

The following table summarizes the TCJA impact on our regulated businesses:

Operation and Regulatory Jurisdiction	Regulatory Liabilities related to ADIT: Amount (in thousands)	Regulatory Liabilities related to ADIT: Status	Status of Customer Rate impact related to lower federal corporate income tax rate
Eastern Shore (FERC)	$34,190	Will be addressed in Eastern Shore's next rate case filing	Implemented one-time bill credit (totaling $900,000) in April 2018 - Customer rates adjusted in April, 2018
Delaware Division (Delaware PSC)	$13,082	PSC approved amortization of ADIT in January 2019	Customer rates adjusted March 1, 2019. One-time bill credit to be implemented during the second quarter of 2019
Maryland Division (Maryland PSC)	$4,171	PSC approved amortization of ADIT in May 2018	Implemented one-time bill credit (totaling $365,000) in July 2018 - Customer rates adjusted effective May 1, 2018
Sandpiper Energy (Maryland PSC)	$3,803	PSC approved amortization of ADIT in May 2018	Implemented one-time bill credit (totaling $608,000) in July 2018 - Customer rates adjusted effective May 1, 2018
Chesapeake Florida Gas Division/Central Florida Gas (Florida PSC)	$8,346	PSC issued order authorizing amortization and retention of net ADIT liability by the Company on February 25, 2019	PSC Staff recommendation issued on January 24, 2019; final order was issued on February 25, 2019; No one-time bill credit or adjustment in rates will be applied; the tax savings arising from the TCJA rate reduction will be retained by the Company
FPU Natural Gas (includes FPU, Fort Meade, and Indiantown) (Florida PSC)	$19,478	Same treatment on a net basis as Chesapeake Florida Gas Division (above)	Same treatment on a net basis as Chesapeake Florida Gas Division (above)
FPU Electric (Florida PSC)	$5,950	In January 2019, PSC issued order approving amortization of ADIT through purchased power cost recovery, storm reserve and rates	TCJA benefit will flow back to its customers through a combination of reductions to the fuel cost recovery rate, base rates, as well as application to the storm reserve over the next several years

5. Environmental Commitments and Contingencies

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

MGP Sites

We have participated in the investigation, assessment or remediation of, and have exposures at, seven former MGP sites. We have received approval for recovery of clean-up costs in rates for sites located in Salisbury, Maryland; Seaford, Delaware; and Winter Haven, Key West, Pensacola, Sanford and West Palm Beach, Florida. We are also in discussions with the Maryland Department of Environment ("MDE") regarding another former MGP site located in Cambridge, Maryland.

As of March 31, 2019 and December 31, 2018, we had approximately $8.9 million and $9.1 million, respectively, in environmental liabilities related to FPU's MGP sites in Key West, Pensacola, Sanford and West Palm Beach. FPU has approval to recover, from insurance and through customer rates, up to $14.0 million of its environmental costs related to its MGP sites. As of March 31, 2019 and December 31, 2018, we had recovered approximately $11.6 million and $11.5 million, respectively, leaving approximately $2.4 million and $2.5 million, respectively, in regulatory assets for future recovery of environmental costs from FPU's customers.

Environmental liabilities for our MGP sites are recorded on an undiscounted basis based on the estimate of future costs provided by independent consultants. We continue to expect that all costs related to environmental remediation and related activities, including any potential future remediation costs for which we do not currently have approval for regulatory recovery, will be recoverable from customers through rates.

The following is a summary of our remediation status and estimated costs to implement clean-up of our key MGP sites:

MGP Site (Jurisdiction)	Status	Estimated Cost to Clean up (Expect to Recover through Rates with Customers)
West Palm Beach (Florida)	Remedial actions approved by the Florida Department of Environmental Protection have been implemented on the east parcel of the site. We expect to implement similar remedial actions on other remaining portions, including the anticipated demolition of buildings on the site's west parcel in 2019.	Between $4.5 million to $15.4 million, including costs associated with the relocation of FPU's operations at this site, which is necessary to implement the remedial plan, and any potential costs associated with future redevelopment of the properties.
Sanford (Florida)	In March 2018, the United States Environmental Protection Agency ("EPA") approved a "site-wide ready for anticipated use" status, which is the final step before delisting a site. Construction has been completed and restrictive covenants are in place to ensure protection of human health. The only remaining activity is long-term groundwater monitoring.	FPU's remaining remediation expenses, including attorneys' fees and costs, are anticipated to be less than $10,000. It is unlikely that FPU will incur any significant future costs associated with the site.
Winter Haven (Florida)	Remediation is ongoing.	Not expected to exceed $425,000, which includes costs of implementing institutional controls at the site.
Seaford (Delaware)	Conducted investigations of on-site and off-site impacts in the vicinity of the site, from 2014 through 2018, and submitted the findings to Delaware Department of Natural Resources and Environmental Control ("DNREC") in a March 2019 report. An interim action involving air-sparging/vapor extraction to mitigate on-site impact will be implemented, after the Work Plan has been submitted and approved by DNREC.	Between $273,000 and $465,000.
Cambridge (Maryland)	Currently in discussions with the MDE.	Unable to estimate.

6. Other Commitments and Contingencies

Natural Gas, Electric and Propane Supply

Our Delmarva Peninsula natural gas distribution operations have asset management agreements with PESCO to manage their natural gas transportation and storage capacity. The agreements were effective as of April 1, 2017, and each has a three-year term, expiring on March 31, 2020.

In May 2013, Sandpiper entered into a capacity, supply and operating agreement with Eastern Gas & Water Investment Company, LLC ("EGWIC") to purchase propane through May 2019. Sandpiper has the option to enter into either a fixed per-gallon price for some or all of the propane purchases or a market-based price utilizing one of two local propane pricing indices. Sandpiper's remaining commitment at March 31, 2019 was approximately 288,000 gallons. Sandpiper has entered into an agreement with EGWIC to purchase any remaining assets at the end of the lease term and will transfer them to Sharp.

Also in May 2013, Sharp entered into a separate supply and operating agreement with EGWIC. Under this agreement, Sharp has a commitment to supply propane to EGWIC through May 2019. Sharp's remaining commitment as of March 31, 2019 was approximately 288,000 gallons. The agreement between Sharp and EGWIC is separate from the agreement between Sandpiper and EGWIC.

Chesapeake Utilities' Florida Division has firm transportation service contracts with Florida Gas Transmission Company ("FGT") and Gulfstream. Pursuant to a capacity release program approved by the Florida PSC, all of the capacity under these agreements has been released to various third parties, including PESCO. Under the terms of these capacity release agreements, Chesapeake Utilities is contingently liable to FGT and Gulfstream should any party, that acquired the capacity through release, fail to pay the capacity charge.

FPU’s electric supply contracts require FPU to maintain an acceptable standard of creditworthiness based on specific financial ratios. FPU’s agreement with Florida Power & Light Company requires FPU to meet or exceed a debt service coverage ratio of 1.25 times based on the results of the prior 12 months. If FPU fails to meet this ratio, it must provide an irrevocable letter of credit or pay all amounts outstanding under the agreement within five business days. FPU’s electric supply agreement with Gulf Power requires FPU to meet the following ratios based on the average of the prior six quarters: (a) funds from operations interest coverage ratio (minimum of two times), and (b) total debt to total capital (maximum of 65 percent). If FPU fails to meet the requirements, it has to provide the supplier a written explanation of actions taken, or proposed to be taken, to become compliant. Failure to comply with the ratios specified in the Gulf Power agreement could also result in FPU having to provide an irrevocable letter of credit. As of March 31, 2019, FPU was in compliance with all of the requirements of its fuel supply contracts.

Eight Flags provides electricity and steam generation services through its CHP plant located on Amelia Island, Florida. In June 2016, Eight Flags began selling power generated from the CHP plant to FPU pursuant to a 20-year power purchase agreement for distribution to our electric customers. In July 2016, Eight Flags also started selling steam, pursuant to a separate 20-year contract, to the landowner on which the CHP plant is located. The CHP plant is powered by natural gas transported by FPU through its distribution system and Peninsula Pipeline through its intrastate pipeline.

Corporate Guarantees

We have issued corporate guarantees to certain vendors of our subsidiaries, primarily PESCO. These corporate guarantees provide for the payment of natural gas purchases in the event that PESCO defaults. PESCO has never defaulted on its obligations to pay its suppliers. The liabilities for these purchases are recorded when incurred. The aggregate amount guaranteed at March 31, 2019 was approximately $77.3 million, with the guarantees expiring on various dates through December 2020.

Chesapeake Utilities also guarantees the payment of FPU’s first mortgage bonds. The maximum exposure under this guarantee is the outstanding principal plus accrued interest balances. The outstanding principal balances of FPU’s first mortgage bonds approximate their carrying values (see Note 14*, Long-Term Debt*, for further details).

As of March 31, 2019, we have issued letters of credit totaling approximately $7.0 million related to the electric transmission services for FPU's electric division, the firm transportation service agreement between TETLP and our Delaware and Maryland divisions, the payment of natural gas purchases for PESCO, and to our current and previous primary insurance carriers. These letters of credit have various expiration dates through March 2020. There have been no draws on these letters of credit as of March 31, 2019. We do not anticipate that the counterparties will draw upon these letters of credit, and we expect that they will be renewed to the extent necessary in the future.

7. Segment Information

We use the management approach to identify operating segments. We organize our business around differences in regulatory environment and/or products or services, and the operating results of each segment are regularly reviewed by the chief operating decision maker (our Chief Executive Officer) in order to make decisions about resources and to assess performance.

Our operations are comprised of two reportable segments:

- *Regulated Energy*. Includes energy distribution and transmission services (natural gas distribution, natural gas transmission and electric distribution operations). All operations in this segment are regulated, as to their rates and services, by the PSC having jurisdiction in each operating territory or by the FERC in the case of Eastern Shore.
- *Unregulated Energy.* Includes energy transmission, energy generation (the operations of our Eight Flags' CHP plant), propane operations, the new mobile compressed natural gas utility and pipeline solutions subsidiary, and other energy services (natural gas marketing and related services). These operations are unregulated as to their rates and services. Also included in this segment are other unregulated energy services, such as energy-related merchandise sales and heating, ventilation and air conditioning, plumbing and electrical services.

The remainder of our operations is presented as “Other businesses and eliminations,” which consists of unregulated subsidiaries that own real estate leased to Chesapeake Utilities, as well as certain corporate costs not allocated to other operations.

The following table presents financial information about our reportable segments:

(in thousands)	Three Months Ended March 31, 2019		Three Months Ended March 31, 2018	
Operating Revenues, Unaffiliated Customers				
Regulated Energy	**$**	**100,739**	$	105,954
Unregulated Energy		**126,877**		133,402
Total operating revenues, unaffiliated customers	**$**	**227,616**	$	239,356
Intersegment Revenues [(1)]				
Regulated Energy	**$**	**2,879**	$	3,439
Unregulated Energy		**11,225**		11,965
Other businesses		**132**		194
Total intersegment revenues	**$**	**14,236**	$	15,598
Operating Income				
Regulated Energy	**$**	**29,741**	$	26,711
Unregulated Energy		**15,127**		13,684
Other businesses and eliminations		**(875)**		11
Operating income		**43,993**		40,406
Other income (expense), net		**(45)**		68
Interest charges		**5,710**		3,664
Income before Income Taxes		**38,238**		36,810
Income taxes		**9,574**		9,955
Net Income	**$**	**28,664**	$	26,855

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

(in thousands)	March 31, 2019		December 31, 2018	
Identifiable Assets				
Regulated Energy segment	**$**	**1,343,061**	$	1,345,805
Unregulated Energy segment		**296,836**		306,045
Other businesses and eliminations		**42,900**		41,821
Total identifiable assets	**$**	**1,682,797**	$	1,693,671

Our operations are entirely domestic.

8. Stockholder's Equity

Accumulated Other Comprehensive Loss

Defined benefit pension and postretirement plan items, unrealized gains (losses) of our propane swap agreements, call options natural gas swaps and futures contracts, designated as commodity contracts cash flow hedges, are the components of our accumulated other comprehensive loss. The following tables present the changes in the balance of accumulated other comprehensive (loss)/income as of March 31, 2019 and 2018. All amounts except the stranded tax reclassification are presented net of tax.

(in thousands)	Defined Benefit Pension and Postretirement Plan Items	Commodity Contracts Cash Flow Hedges	Total
As of December 31, 2018	**$ (5,928)**	**$ (785)**	**$ (6,713)**
Other comprehensive income before reclassifications	**—**	**3,021**	**3,021**
Amounts reclassified from accumulated other comprehensive income/(loss)	**107**	**(39)**	**68**
Net current-period other comprehensive income	**107**	**2,982**	**3,089**
Prior-year reclassification	**—**	**(115)**	**(115)**
As of March 31, 2019	**$ (5,821)**	**$ 2,082**	**$ (3,739)**

(in thousands)			
As of December 31, 2017	$ (4,743)	$ 471	$ (4,272)
Other comprehensive loss before reclassifications	—	(2,232)	(2,232)
Amounts reclassified from accumulated other comprehensive income/(loss)	94	444	538
Net prior-period other comprehensive income/(loss)	94	(1,788)	(1,694)
Stranded tax reclassification to retained earnings	(1,022)	115	(907)
As of March 31, 2018	$ (5,671)	$ (1,202)	$ (6,873)

The following table presents amounts reclassified out of accumulated other comprehensive loss for the three months ended March 31, 2019 and 2018. Deferred gains or losses for our commodity contracts cash flow hedges are recognized in earnings upon settlement.

	Three Months Ended March 31,	
(in thousands)	2019	2018
Amortization of defined benefit pension and postretirement plan items:		
Prior service credit [(1)]	**$ 19**	$ 19
Net loss[(1)]	**(163)**	(149)
Total before income taxes	**(144)**	(130)
Income tax benefit	**37**	36
Net of tax	**$ (107)**	$ (94)
Gains and losses on commodity contracts cash flow hedges:		
Propane swap agreements [(2)]	**$ 606**	$ (464)
Natural gas swaps [(2)]	**11**	(450)
Natural gas futures [(2)]	**(573)**	298
Total before income taxes	**44**	(616)
Income tax benefit (expense)	**(5)**	172
Net of tax	**39**	(444)
Total reclassifications for the period	**$ (68)**	$ (538)

[(1)] These amounts are included in the computation of net periodic costs (benefits). See Note 9, *Employee Benefit Plans*, for additional details.

[(2)] These amounts are included in the effects of gains and losses from derivative instruments. See Note 12, *Derivative Instruments*, for additional details.

Amortization of defined benefit pension and postretirement plan items is included in operations expense, and gains and losses on propane swap agreements, call options and natural gas futures contracts are included in cost of sales in the accompanying condensed consolidated statements of income. The income tax benefit is included in income tax expense in the accompanying condensed consolidated statements of income.

9. Employee Benefit Plans

Net periodic benefit costs for our pension and post-retirement benefits plans for the three months ended March 31, 2019 and 2018 are set forth in the following tables:

	Chesapeake Pension Plan		FPU Pension Plan		Chesapeake SERP		Chesapeake Postretirement Plan		FPU Medical Plan	
For the Three Months Ended March 31,	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
(in thousands)										
Interest cost	**$ 105**	$ 97	**$ 615**	$ 592	**$ 21**	$ 21	**$ 10**	$ 10	**$ 12**	$ 12
Expected return on plan assets	**(127)**	(138)	**(693)**	(774)	**—**	—	**—**	—	**—**	—
Amortization of prior service credit	**—**	—	**—**	—	**—**	—	**(19)**	(19)	**—**	—
Amortization of net loss	**101**	88	**129**	109	**26**	25	**12**	15	**—**	—
Net periodic cost (benefit)	**79**	47	**51**	(73)	**47**	46	**3**	6	**12**	12
Amortization of pre-merger regulatory asset	**—**	—	**190**	191	**—**	—	**—**	—	**2**	2
Total periodic cost	**$ 79**	$ 47	**$ 241**	$ 118	**$ 47**	$ 46	**$ 3**	$ 6	**$ 14**	$ 14

We expect to record pension and postretirement benefit costs of approximately $1.3 million for 2019. Included in these costs is approximately $543,000 related to continued amortization of the FPU pension regulatory asset, which represents the portion attributable to FPU's regulated energy operations for the changes in funded status that occurred, but were not recognized, as part of net periodic benefit costs prior to the FPU merger in 2009. This was deferred as a regulatory asset by FPU prior to the merger, to be recovered through rates pursuant to a previous order by the Florida PSC. The unamortized balance of this regulatory asset was approximately $351,000 and approximately $543,000 at March 31, 2019 and December 31, 2018, respectively. The other than service cost components of the net periodic costs have been recorded or reclassified to other income (expense), net in the condensed consolidated statements of income.

Pursuant to a Florida PSC order, FPU continues to record, as a regulatory asset, a portion of the unrecognized pension and postretirement benefit costs related to its regulated operations after the FPU merger. The portion of the unrecognized pension and postretirement benefit costs related to FPU's unregulated operations and Chesapeake Utilities' operations is recorded to accumulated other comprehensive loss.

The following tables present the amounts included in the regulatory asset and accumulated other comprehensive loss that were recognized as components of net periodic benefit cost during the three months ended March 31, 2019 and 2018:

For the Three Months Ended March 31, 2019	**Chesapeake Pension Plan**	**FPU Pension Plan**	**Chesapeake SERP**	**Chesapeake Postretirement Plan**	**FPU Medical Plan**	**Total**
(in thousands)						
Prior service credit	**$ —**	**$ —**	**$ —**	**$ (19)**	**$ —**	**$ (19)**
Net loss	**101**	**129**	**26**	**12**	**—**	**268**
Total recognized in net periodic benefit cost	**101**	**129**	**26**	**(7)**	**—**	**249**
Recognized from accumulated other comprehensive loss [(1)]	**101**	**24**	**26**	**(7)**	**—**	**144**
Recognized from regulatory asset	**—**	**105**	**—**	**—**	**—**	**105**
Total	**$ 101**	**$ 129**	**$ 26**	**$ (7)**	**$ —**	**$ 249**

For the Three Months Ended March 31, 2018 *(in thousands)*	Chesapeake Pension Plan	FPU Pension Plan	Chesapeake SERP	Chesapeake Postretirement Plan	FPU Medical Plan	Total
Prior service credit	$ —	$ —	$ —	$ (19)	$ —	$ (19)
Net loss	88	109	25	15	—	237
Total recognized in net periodic benefit cost	88	109	25	(4)	—	218
Recognized from accumulated other comprehensive loss (1)	88	21	25	(4)	—	130
Recognized from regulatory asset	—	88	—	—	—	88
Total	$ 88	$ 109	$ 25	$ (4)	$ —	$ 218

(1) See Note 8, *Stockholder's Equity*.

During the three months ended March 31, 2019, we contributed approximately $33,000 to the Chesapeake Pension Plan and approximately $233,000 to the FPU Pension Plan. We expect to contribute a total of approximately $163,000 and approximately $1.2 million to the Chesapeake Pension Plan and FPU Pension Plan, respectively, during 2019, which represents the minimum annual contribution payments required.

The Chesapeake SERP, the Chesapeake Postretirement Plan and the FPU Medical Plan are unfunded and are expected to be paid out of our general funds. Cash benefits paid under the Chesapeake SERP for the three months ended March 31, 2019, were approximately $38,000. We expect to pay total cash benefits of approximately $383,000 under the Chesapeake SERP in 2019. Cash benefits paid under the Chesapeake Postretirement Plan, primarily for medical claims for the three months ended March 31, 2019, were approximately $1,000. We estimate that approximately $96,000 will be paid for such benefits under the Chesapeake Postretirement Plan in 2019. Cash benefits paid under the FPU Medical Plan, primarily for medical claims for the three months ended March 31, 2019, were approximately $6,000. We estimate that approximately $94,000 will be paid for such benefits under the FPU Medical Plan in 2019.

10. Investments

The investment balances at March 31, 2019 and December 31, 2018, consisted of the following:

(in thousands)	March 31, 2019	December 31, 2018
Rabbi trust (associated with the Non-Qualified Deferred Compensation Plan)	**$ 7,484**	$ 6,689
Investments in equity securities	**25**	22
Total	**$ 7,509**	$ 6,711

We classify these investments as trading securities and report them at their fair value. For the three months ended March 31, 2019 and 2018, we recorded a net unrealized gain of approximately $727,000 and a net unrealized loss of approximately $44,000, respectively, in other expense, net in the condensed consolidated statements of income related to these investments. For the investment in the Rabbi Trust, we also have recorded an associated liability, which is included in other pension and benefit costs in the condensed consolidated balance sheets and is adjusted each period for the gains and losses incurred by the investments in the Rabbi Trust.

11. Share-Based Compensation

Our non-employee directors and key employees are granted share-based awards through our SICP. We record these share-based awards as compensation costs over the respective service period for which services are received in exchange for an award of equity or equity-based compensation. The compensation cost is based primarily on the fair value of the shares awarded, using the estimated fair value of each share on the date it was granted and the number of shares to be issued at the end of the service period.

The table below presents the amounts included in net income related to share-based compensation expense for the three months ended March 31, 2019 and 2018:

(in thousands)	Three Months Ended March 31, 2019	2018
Awards to non-employee directors	**$ 149**	$ 135
Awards to key employees	**338**	1,385
Total compensation expense	**487**	1,520
Less: tax benefit	**(127)**	(416)
Share-based compensation amounts included in net income	**$ 360**	$ 1,104

Non-employee Directors

Shares granted to non-employee directors are issued in advance of the directors' service periods and are fully vested as of the date of the grant. We record a prepaid expense equal to the fair value of the shares issued and amortize the expense equally over a service period of one year. In May 2018, each of our non-employee directors received an annual retainer of 792 shares of common stock under the SICP for service as a director through the 2019 Annual Meeting of Stockholders. Our former President and Chief Executive Officer, Michael P. McMasters, retired on December 31, 2018 and continued as a member of the Board of Directors beginning January 1, 2019. Mr. McMasters received a pro-rated grant of 276 shares of common stock under the SICP for service as a non-employee director from January 1, 2019 through the 2019 Annual Meeting of Stockholders. These shares were issued and vested in January 2019 at a weighted average fair value of $75.70.

At March 31, 2019, there was approximately $52,000 of unrecognized compensation expense related to shares granted to non-employee directors. This expense will be recognized over the remaining service period ending April 30, 2019. See Note 1, *Summary of Accounting Policies*, for additional information regarding ASU 2018-07 and its impact on the accounting for non-employee share-based payments.

Key Employees

The table below presents the summary of the stock activity for awards to key employees for the three months ended March 31, 2019:

	Number of Shares	Weighted Average Fair Value
Outstanding—December 31, 2018	131,741	$ 67.24
Granted	45,016	$ 91.19
Vested	(25,831)	$ 67.08
Expired	(15,086)	$ 69.28
Outstanding—March 31, 2019	135,840	$ 74.05

In February 2019, our Board of Directors granted awards of 45,016 shares of common stock to key employees under the SICP. The shares granted are multi-year awards that will vest at the end of the three-year service period ending December 31, 2021. All of these stock awards are earned based upon the successful achievement of long-term financial results, which comprise market-based and performance-based conditions or targets. The fair value of each performance-based condition or target is equal to the market price of our common stock on the grant date of each award. For the market-based conditions, we used the Black-Scholes pricing model to estimate the fair value of each market-based award granted.

In March 2019, upon the election of certain of our executive officers, we withheld shares with a value at least equivalent to each such executive officer's minimum statutory obligation for applicable income and other employment taxes related to shares that we awarded in February 2019 for the performance period ended December 31, 2018, remitted the cash to the appropriate taxing authorities, and paid the balance of such awarded shares to each such executive officer. We withheld 7,635 shares, based on the value of the shares on their award date, determined by the average of the high and low prices of our common stock. Total combined payments for the employees' tax obligations to the taxing authorities were approximately $692,000.

At March 31, 2019, the aggregate intrinsic value of the SICP awards granted to key employees was approximately $12.4 million. At March 31, 2019, there was approximately $4.3 million of unrecognized compensation cost related to these awards, which is expected to be recognized as expense from 2019 through 2021.

Stock Options

We did not have any stock options outstanding at March 31, 2019 or 2018, nor were any stock options issued during these periods.

12. Derivative Instruments

We use derivative and non-derivative contracts to manage risks related to obtaining adequate supplies and the price fluctuations of natural gas, electricity and propane. Our natural gas, electric and propane distribution operations have entered into agreements with suppliers to purchase natural gas, electricity and propane for resale to our customers. Aspire Energy has entered into contracts with producers to secure natural gas to meet its obligations. Purchases under these contracts typically either do not meet the definition of derivatives or are considered “normal purchases and normal sales” and are accounted for on an accrual basis. Both our propane distribution and natural gas marketing operations may also enter into fair value hedges of their inventory or cash flow hedges of their future purchase commitments in order to mitigate the impact of wholesale price fluctuations. As of March 31, 2019, our natural gas and electric distribution operations did not have any outstanding derivative contracts.

Volume of Derivative Activity

As of March 31, 2019, the volume of our open commodity derivative contracts were as follows:

Business unit	Commodity	Quantity hedged (in millions)	Designation	Longest Expiration date of hedge
PESCO	Natural gas (Dts)	21.7	Cash flows hedges	December 2022
PESCO	Natural gas (Dts)	3.8	Not designated	March 2021
Sharp	Propane (gallons)	5.4	Cash flows hedges	June 2021

PESCO entered into natural gas futures contracts associated with the purchase and sale of natural gas to specific customers. We designated and accounted for them as cash flow hedges. The change in fair value of the natural gas futures contracts is recorded as unrealized gain (loss) in other comprehensive income (loss) and later recognized in the statement of income in the same period and in the same line item as the hedged transaction. We expect to reclassify approximately $2.1 million from accumulated other comprehensive loss to earnings during the next 12-month period ending March 31, 2020.

Sharp entered into futures and swap agreements to mitigate the risk of fluctuations in wholesale propane index prices associated with the propane volumes expected to be purchased during the heating season. Under the futures and swap agreements, Sharp will receive the difference between: (i) the index prices (Mont Belvieu prices in August 2018 through June 2021), and (ii) the per gallon propane swap prices, to the extent the index prices exceed the contracted prices. If the index prices are lower than the swap prices, Sharp will pay the difference. We designated and accounted for propane swaps as cash flows hedges. The change in the fair value of the swap agreements is recorded as unrealized gain (loss) in other comprehensive income (loss) and later recognized in the statement of income in the same period and in the same line item as the hedged transaction. We expect to reclassify approximately $503,000 from accumulated other comprehensive income (loss) to earnings during the next 12-month period ending March 31, 2020.

Balance Sheet Offsetting

PESCO has entered into master netting agreements with counterparties that enable it to net the counterparties' outstanding accounts receivable and payable, which are presented on a net basis in the condensed consolidated balance sheets. The following table summarizes the accounts receivable and payable on a gross and net basis at March 31, 2019 and December 31, 2018:

	At March 31, 2019		
(in thousands)	Gross amounts	Amounts offset	Net amounts
Accounts receivable	**$ 8,832**	**$ 3,264**	**$ 5,568**
Accounts payable	**$ 15,906**	**$ 3,264**	**$ 12,642**

	At December 31, 2018		
(in thousands)	Gross amounts	Amounts offset	Net amounts
Accounts receivable	$ 12,368	$ 3,834	$ 8,534
Accounts payable	$ 24,741	$ 3,834	$ 20,907

Broker Margin

Futures exchanges have contract specific margin requirements that require the posting of cash or cash equivalents relating to traded contracts. Margin requirements consist of initial margin that is posted upon the initiation of a position, maintenance margin that is usually expressed as a percent of initial margin, and variation margin that fluctuates based on the daily MTM relative to maintenance margin requirements. We maintain separate broker margin accounts for Sharp and PESCO. The balances are as follows:

(in thousands)	Balance Sheet Location	At March 31, 2019	At December 31, 2018
PESCO	Other Current Assets	**$ (335)**	$ 2,810

Financial Statements Presentation

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

The fair values of the derivative contracts recorded in the condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018, are as follows:

	Asset Derivatives		
		Fair Value As Of	
(in thousands)	Balance Sheet Location	March 31, 2019	December 31, 2018
Derivatives not designated as hedging instruments			
Natural gas futures contracts	Derivative assets, at fair value	**$ 2,122**	$ 4,024
Derivatives designated as fair value hedges			
Propane put options	Derivative assets, at fair value	**—**	71
Derivatives designated as cash flow hedges			
Natural gas futures contracts	Derivative assets, at fair value	**7,055**	9,059
Propane swap agreements	Derivative assets, at fair value	**44**	11
Total asset derivatives		**$ 9,221**	$ 13,165

(in thousands)	Balance Sheet Location	Liability Derivatives Fair Value As Of March 31, 2019	Liability Derivatives Fair Value As Of December 31, 2018
Derivatives not designated as hedging instruments			
Natural gas futures contracts	Derivative liabilities, at fair value	**$ 2,638**	$ 4,562
Derivatives designated as cash flow hedges			
Natural gas futures contracts	Derivative liabilities, at fair value	**3,533**	8,705
Propane swap agreements	Derivative liabilities, at fair value	**627**	1,604
Total liability derivatives		**$ 6,798**	$ 14,871

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

(in thousands)	Location of Gain (Loss) on Derivatives	Amount of Gain (Loss) on Derivatives: For the Three Months Ended March 31, 2019	2018
Derivatives not designated as hedging instruments			
Natural gas futures contracts	Cost of sales	**$ (22)**	$ (2,835)
Propane swap agreements	Cost of sales	**—**	(9)
Derivatives designated as cash flow hedges			
Propane swap agreements	Cost of sales	**606**	(464)
Propane swap agreements	Other comprehensive income (loss)	**1,009**	(992)
Natural gas futures contracts	Cost of sales	**(573)**	298
Natural gas swap contracts	Cost of sales	**11**	(450)
Natural gas swap contracts	Other comprehensive income (loss)	**3,226**	(1,617)
Natural gas futures contracts	Other comprehensive income (loss)	**(59)**	65
Total		**$ 4,198**	$ (6,004)

As of March 31, 2019, the following amounts were recorded in the condensed consolidated balance sheets related to fair value hedges:

(in thousands)	Carrying Amount of Hedged Item		Cumulative Adjustment Included in Carrying Amount of Hedged Item	
Balance Sheet Location of Hedged Items	At March 31, 2019	At December 31, 2018	At March 31, 2019	At December 31, 2018
Inventory	**$ 6**	$ 212	**$ —**	$ —

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13. Fair Value of Financial Instruments

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The three levels of the fair value hierarchy are the following:

Fair Value Hierarchy	Description of Fair Value Level	Fair Value Technique Utilized
Level 1	Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities	*Investments - equity securities* - The fair values of these trading securities are recorded at fair value based on unadjusted quoted prices in active markets for identical securities. *Investments - mutual funds and other* - The fair values of these investments, comprised of money market and mutual funds, are recorded at fair value based on quoted net asset values of the shares.
Level 2	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	*Derivative assets and liabilities* - The fair values of forward contracts are measured using market transactions in either the listed or over-the-counter markets. The fair value of the propane put/call options, swap agreements and natural gas futures contracts are measured using market transactions for similar assets and liabilities in either the listed or over-the-counter markets.
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)	*Investments - guaranteed income fund* - The fair values of these investments are recorded at the contract value, which approximates their fair value.

Financial Assets and Liabilities Measured at Fair Value

The following tables summarize our financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements, by level, within the fair value hierarchy as of March 31, 2019 and December 31, 2018:

		Fair Value Measurements Using:		
As of March 31, 2019 *(in thousands)*	**Fair Value**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
Investments—equity securities	$ 25	$ 25	$ —	$ —
Investments—guaranteed income fund	695	—	—	695
Investments—mutual funds and other	6,789	6,789	—	—
Total investments	7,509	6,814	—	695
Derivative assets	9,221	—	9,221	—
Total assets	$ 16,730	$ 6,814	$ 9,221	$ 695
Liabilities:				
Derivative liabilities	$ 6,798	$ —	$ 6,798	$ —

As of December 31, 2018 *(in thousands)*	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Investments—equity securities	$ 22	$ 22	$ —	$ —
Investments—guaranteed income fund	686	—	—	686
Investments—mutual funds and other	6,003	6,003	—	—
Total investments	6,711	6,025	—	686
Derivative assets	13,165	—	13,165	—
Total assets	$ 19,876	$ 6,025	$ 13,165	$ 686
Liabilities:				
Derivative liabilities	$ 14,871	$ —	$ 14,871	$ —

The following table sets forth the summary of the changes in the fair value of Level 3 investments for the three months ended March 31, 2019 and 2018:

(in thousands)	Three Months Ended March 31, 2019	2018
Beginning Balance	**$ 686**	$ 648
Purchases and adjustments	**6**	(48)
Investment income	**3**	2
Ending Balance	**$ 695**	$ 602

Investment income from the Level 3 investments is reflected in other expense, (net) in the consolidated statements of income.

At March 31, 2019, there were no non-financial assets or liabilities required to be reported at fair value. We review our non-financial assets for impairment at least on an annual basis, as required.

Other Financial Assets and Liabilities

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

At March 31, 2019, long-term debt which includes current maturities but excludes capital lease obligations, had a carrying value of approximately $357.2 million, compared to the estimated fair value of $361.3 million, using a discounted cash flow methodology that incorporates a market interest rate based on published corporate borrowing rates for debt instruments with similar terms and average maturities, and with adjustments for duration, optionality, and risk profile. At December 31, 2018, long-term debt, which includes the current maturities but excludes a capital lease obligation, had a carrying value of approximately $327.2 million, compared to a fair value of approximately $323.8 million. The valuation technique used to estimate the fair value of long-term debt would be considered a Level 3 measurement.

14. Long-Term Debt

Our outstanding long-term debt is shown below:

(in thousands)	March 31, 2019	December 31, 2018
FPU secured first mortgage bonds [1] :		
9.08% bond, due June 1, 2022	**$ 7,987**	$ 7,986
Uncollateralized senior notes:		
5.50% note, due October 12, 2020	**4,000**	4,000
5.93% note, due October 31, 2023	**15,000**	15,000
5.68% note, due June 30, 2026	**23,200**	23,200
6.43% note, due May 2, 2028	**7,000**	7,000
3.73% note, due December 16, 2028	**20,000**	20,000
3.88% note, due May 15, 2029	**50,000**	50,000
3.25% note, due April 30, 2032	**70,000**	70,000
3.48% note, due May 31, 2038	**50,000**	50,000
3.58% note, due November 30, 2038	**50,000**	50,000
Term Note due January 21, 2020	**30,000**	30,000
Term Note due February 28, 2020	**30,000**	—
Promissory notes	**—**	26
Finance lease obligation	**909**	1,310
Less: debt issuance costs	**(589)**	(567)
Total long-term debt	**357,507**	327,955
Less: current maturities	**(71,509)**	(11,935)
Total long-term debt, net of current maturities	**$ 285,998**	$ 316,020

[1] FPU secured first mortgage bonds are guaranteed by Chesapeake Utilities.

Term Notes

In December 2018, we issued a $30.0 million unsecured term note through PNC Bank N.A. with maturity date of January 21, 2020. The interest rate at March 31, 2019 and December 31, 2018 was 3.24% and 3.23%, respectively, which equals one month LIBOR rate plus 75 basis points. In January 2019, we issued a $30.0 million unsecured term note through Branch Banking and Trust Company, with a maturity date of February 28, 2020. The interest rate at March 31, 2019 was 3.24%, which equals the one month LIBOR rate plus 75 basis points. As of March 31, 2019, these term notes totaling $60.0 million are included in the current maturities of long-term debt.

Shelf Agreements

We have entered into Shelf Agreements with Prudential, MetLife and NYL, whom are under no obligation to purchase any unsecured debt. We entered into the Prudential Shelf Agreement, totaling $150.0 million, in October 2015, and we issued $70.0 million of 3.25% unsecured debt in April 2017. The Prudential Shelf Agreement was then amended in September 2018 to increase the borrowing capacity back up to $150.0 million, and Prudential accepted our request to purchase our unsecured debt of $100.0 million at an interest rate of 3.98% on or before August 20, 2019. We entered into the NYL Shelf Agreement, totaling $100.0 million, in March 2017, and we issued unsecured debt totaling $100.0 million during 2018. The NYL Shelf Agreement was amended in November 2018 to add incremental borrowing capacity of $50.0 million. As of March 31, 2019, we had not requested that MetLife purchase unsecured senior debt under the MetLife Shelf Agreement, which we entered into in March 2017. The following table summarizes the borrowing information under our Shelf Agreements at March 31, 2019:

(in thousands)	Total Borrowing Capacity	Less: Amount of Debt Issued	Less: Unfunded Commitments	Remaining Borrowing Capacity
Shelf Agreement				
Prudential Shelf Agreement	$ 220,000	$ (70,000)	$ (100,000)	$ 50,000
MetLife Shelf Agreement	150,000	—	—	150,000
NYL Shelf Agreement	150,000	(100,000)	—	50,000
Total	$ 520,000	$ (170,000)	$ (100,000)	$ 250,000

The Shelf Agreements or Shelf Notes set forth certain business covenants to which we are subject when any note is outstanding, including covenants that limit or restrict our ability, and the ability of our subsidiaries, to incur indebtedness, or place or permit liens and encumbrances on any of our property or the property of our subsidiaries.

15. Leases

We have entered into lease arrangements for office space, land, equipment, pipeline facilities and warehouses. These leases have been entered into to better enable us to conduct our business operations in the regions in which we operate. Office space is leased to provide adequate workspace for all our employees in several locations throughout the Mid-Atlantic, Mid-West and in Florida. We lease land at various locations throughout our service territories to enable us to inject natural gas into underground storage and distribution systems, for bulk storage capacity, for our propane operations and for storage of equipment used in repairs and maintenance of our infrastructure. We lease natural gas compressors to ensure timely and reliable transportation of natural gas to our customers. Additionally, we lease a pipeline to deliver natural gas to an industrial customer in Polk County, Florida. We lease warehouses to store equipment and materials used in repairs and maintenance for our businesses.

Some of our leases are subject to annual changes in the Consumer Price Index ("CPI"). While lease liabilities are not re-measured as a result of changes to the CPI, changes to the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. A 100-basis-point increase in CPI would have resulted in immaterial additional annual lease costs.

Most of our leases include options to renew, with renewal terms that can extend the lease term from one to 25 years or more. The exercise of lease renewal options is at our sole discretion. The amounts disclosed in our condensed consolidated balance sheet at March 31, 2019, pertaining to the right of use assets and lease liabilities, are measured based on our current expectations of exercising our available renewal options.

Our existing leases are not subject to any restrictions or covenants which preclude our ability to pay dividends, obtain financing or enter into additional leases.

We utilize our incremental borrowing rate, as the basis to calculate the present value of future lease payments, at lease commencement. Our incremental borrowing rate represents the rate that we would have to pay to borrow funds on a collateralized basis over a similar term and in a similar economic environment.

Leases with an initial term of 12 months or less are not recorded on our balance sheet; we recognize lease expense for these leases on a straight-line basis over the lease term.

We have elected not to separate non-lease components from all classes of our existing leases. Non-lease components have been accounted for as part of the single lease component to which they are related.

As of March 31, 2019, we have not entered into any leases, which have not yet commenced, that would entitle us to significant rights or create additional obligations. The following table presents information related to our total lease cost included in our condensed consolidated statements of income:

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(in thousands)	Classification	Three Months Ended March 31, 2019	2018
Operating lease cost (1)	Operations expense	**$ 635**	$ 1,107
Finance lease cost			
Amortization of lease assets	Depreciation and amortization	**401**	358
Interest on lease liabilities	Interest expense	**4**	17
Net lease cost		**$ 1,040**	$ 1,482

(1) Includes short-term leases and variable lease costs, which are immaterial

The following table presents the balance and classifications of our right of use assets and lease liabilities included in our consolidated balance sheet at March 31, 2019:

(in thousands)	Balance sheet classification	Amount
Assets		
Operating lease assets	Operating lease right-of-use assets	**$ 12,523**
Finance lease assets	Property, plant and equipment	**1,839**
Total lease assets		**$ 14,362**
Liabilities		
Current		
Operating lease liabilities	Other accrued liabilities	**$ 1,642**
Finance lease liabilities	Current portion of long-term debt	**909**
Noncurrent		
Operating lease liabilities	Other liabilities	**10,873**
Finance lease liabilities	Long-term debt	**—**
Total lease liabilities		**$ 13,424**

The following table presents our weighted-average remaining lease terms and weighted-average discount rates for our operating and financing leases at March 31, 2019:

	At March 31, 2019
Weighted-average remaining lease term (*in years*)	
Operating leases	**9.32**
Finance leases	**0.17**
Weighted-average discount rate	
Operating leases	**3.8%**
Finance leases	**3.5%**

The following table presents additional information related to cash paid for amounts included in the measurement of lease liabilities included in our condensed consolidated statements of cash flows as of March 31, 2019 and March 31, 2018:

(in thousands)	Three Months Ended March 31, 2019	2018
Operating cash flows from operating leases	**$ 537**	$ 1,018
Operating cash flows from finance leases	**4**	17
Financing cash flows from finance leases	**401**	358

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The following table presents the future undiscounted maturities of our operating and financing leases at March 31, 2019 and for each of the next five years and thereafter:

(in thousands)	Operating Leases [(1)]	Finance Leases	Total
Remainder of 2019	$ 1,539	$ 910	$ 2,449
2020	2,045	—	2,045
2021	1,765	—	1,765
2022	1,659	—	1,659
2023	1,669	—	1,669
2024	1,431	—	1,431
Thereafter	4,860	—	4,860
Total lease payments	$ 14,968	$ 910	$ 15,878
Less: Interest	2,453	1	2,454
Present value of lease liabilities	$ 12,515	$ 909	13,424

(1) Operating lease payments include $3.8 million related to options to extend lease terms that are reasonably certain of being exercised.

The following table presents future minimum lease payments for our operating leases at December 31, 2018 under ASC 840 and is being presented for comparative purposes:

Year(s)	2019	2020	2021	2022	2023	Thereafter	Total
(in thousands)							
Expected payments	$2,349	$1,998	$1,761	$1,689	$1,642	$5,398	$14,837

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide a reader of the financial statements with a narrative report on our financial condition, results of operations and liquidity. This discussion and analysis should be read in conjunction with the attached unaudited condensed consolidated financial statements and notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2018, including the audited consolidated financial statements and notes thereto.

Safe Harbor for Forward-Looking Statements

We make statements in this Quarterly Report on Form 10-Q that do not directly or exclusively relate to historical facts. Such statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. One can typically identify forward-looking statements by the use of forward-looking words, such as "project," "believe," "expect," "anticipate," "intend," "plan," "estimate," "continue," "potential," "forecast" or other similar words, or future or conditional verbs such as "may," "will," "should," "would" or "could." These statements represent our intentions, plans, expectations, assumptions and beliefs about future financial performance, business strategy, projected plans and objectives of the Company. Forward-looking statements speak only as of the date they are made or as of the date indicated and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. These statements are subject to many risks, uncertainties and other important factors that could cause actual future results to differ materially from those expressed in the forward-looking statements. In addition to the risk factors described under Item 1A, Risk Factors in our 2018 Annual Report on Form 10-K, such factors include, but are not limited to:

- state and federal legislative and regulatory initiatives that affect cost and investment recovery, have an impact on rate structures, and affect the speed and the degree to which competition enters the electric and natural gas industries;
- the outcomes of regulatory, environmental and legal matters, including whether pending matters are resolved within current estimates and whether the related costs are adequately covered by insurance or recoverable in rates;
- the impact of significant changes to current tax regulations and rates;
- the timing of certification authorizations associated with new capital projects and the ability to construct facilities at or below estimated costs;
- changes in environmental and other laws and regulations to which we are subject and environmental conditions of property that we now, or may in the future, own or operate;
- possible increased federal, state and local regulation of the safety of our operations;
- the economy in our service territories or markets, the nation, and worldwide, including the impact of economic conditions (which we do not control) on demand for electricity, natural gas, propane or other fuels;
- risks related to cyber-attacks or cyber-terrorism that could disrupt our business operations or result in failure of information technology systems;
- the weather and other natural phenomena, including the economic, operational and other effects of hurricanes, ice storms and other damaging weather events;
- customers' preferred energy sources;
- industrial, commercial and residential growth or contraction in our markets or service territories;
- the effect of competition on our businesses;
- the timing and extent of changes in commodity prices and interest rates;
- the effect of spot, forward and future market prices on our various energy businesses;
- the extent of our success in connecting natural gas and electric supplies to transmission systems, establishing and maintaining key supply sources; and expanding natural gas and electric markets;
- the creditworthiness of counterparties with which we are engaged in transactions;
- the capital-intensive nature of our regulated energy businesses;
- the results of financing efforts, including our ability to obtain financing on favorable terms, which can be affected by various factors, including credit ratings and general economic conditions;
- the ability to successfully execute, manage and integrate a merger, acquisition or divestiture of assets or businesses and the related regulatory or other conditions associated with the merger, acquisition or divestiture;
- the impact on our costs and funding obligations, under our pension and other post-retirement benefit plans, of potential downturns in the financial markets, lower discount rates, and costs associated with health care legislation and regulation;
- the ability to continue to hire, train and retain appropriately qualified personnel; and
- the effect of accounting pronouncements issued periodically by accounting standard-setting bodies.

Introduction

We are an energy delivery company engaged in the distribution of natural gas, propane and electricity; the transmission of natural gas; the generation of electricity and steam, and in providing related services to our customers.

Our strategy is focused on growing earnings from a stable utility foundation and investing in related businesses and services that provide opportunities for returns greater than traditional utility returns. We are focused on identifying and developing opportunities across the energy value chain, with emphasis on midstream and downstream investments that are accretive to earnings per share and consistent with our long-term growth strategy.

Our strategy is to consistently produce industry-leading total shareholder returns by profitably investing capital into opportunities that leverage our skills and expertise in energy distribution and transmission to achieve high levels of service and growth. The key elements of our strategy include:

- capital investment in growth opportunities that generate our target returns;
- expanding our energy distribution and transmission operations within our existing service areas as well as into new geographic areas;
- providing new services in our current service areas;
- expanding our footprint in potential growth markets through strategic acquisitions;
- entering new energy markets and businesses that complement our existing operations and growth strategy; and
- operating as a customer-centric full-service energy supplier/partner/provider of safe and reliable service.

Our employees strive to build meaningful connections that generate opportunities to grow our businesses, develop new markets, and enrich the communities in which we live, work and serve.

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

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

Earnings per share information is presented on a diluted basis, unless otherwise noted.

Results of Operations for the Three Months ended March 31, 2019

Overview

Chesapeake Utilities is a Delaware corporation formed in 1947. We are a diversified energy company engaged, through our operating divisions and subsidiaries, in regulated energy, unregulated energy and other businesses. We operate primarily on the Delmarva Peninsula and in Florida, Pennsylvania and Ohio and provide services centered on energy distribution, energy transmission, energy generation, propane operations and other energy services. These services include: natural gas distribution, transmission, and marketing; electric distribution and generation; propane operations; steam generation; and other energy-related services.

Operational Highlights

Our net income for the quarter ended March 31, 2019 was $28.7 million, or $1.74 per share. This represents an increase of $1.8 million, or $0.10 per share, compared to net income of $26.9 million, or $1.64 per share, reported for the same quarter in 2018. Operating income increased by $3.6 million for the three months ended March 31, 2019, compared to the same period in the prior year, as margin increased by $10.1 million, or 11.1 percent, and was offset by a $1.8 million increase in growth-related depreciation, amortization and property taxes and a $4.7 million increase in other operating expenses. In addition, a final order by the Florida PSC allowing us to retain TCJA tax savings associated with lower federal income tax rates resulted in the reversal, during the first quarter of 2019, of $1.3 million in reserves for customer refunds recorded in 2018.

Our net income for the quarter was impacted by an increase in interest charges of $2.0 million, compared to the same period in 2018. The increase was attributable primarily to an increase of $980,000 in interest on higher levels of short-term borrowings, and an increase of $742,000 in interest on long-term debt, largely as a result of the issuance of the NYL Shelf Notes in May and November 2018 and term notes issued in December 2018 and January 2019 to finance the restoration of service to customers who lost service due to the impact of Hurricane Michael.

	Three Months Ended March 31,		Increase
	2019	**2018**	**(decrease)**
(in thousands except per share)			
Business Segment:			
Regulated Energy segment	**$ 29,741**	$ 26,711	$ 3,030
Unregulated Energy segment	**15,127**	13,684	1,443
Other businesses and eliminations	**(875)**	11	(886)
Operating Income	**$ 43,993**	$ 40,406	$ 3,587
Other expense income (expense), net	**(45)**	68	(113)
Interest charges	**5,710**	3,664	2,046
Pre-tax Income	**38,238**	36,810	1,428
Income taxes	**9,574**	9,955	(381)
Net Income	**$ 28,664**	$ 26,855	$ 1,809
Earnings Per Share of Common Stock			
Basic	**$ 1.75**	$ 1.64	$ 0.11
Diluted	**$ 1.74**	$ 1.64	$ 0.10

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Key variances, between the first quarter of 2019 and the first quarter of 2018, included:

(in thousands, except per share data)	Pre-tax Income	Net Income	Earnings Per Share
First Quarter of 2018 Reported Results	**$ 36,810**	**$ 26,855**	**$ 1.64**
Adjusting for Unusual Items:			
Net impact of PESCO's MTM activity	(5,591)	(4,088)	(0.24)
Impact of weather on customer consumption	(2,523)	(1,891)	(0.12)
2018 retained tax savings for certain Florida natural gas operations	1,321	990	0.06
	(6,793)	(4,989)	(0.30)
Increased (Decreased) Gross Margins:			
Absence of the 2018 Bomb Cyclone and capacity constraints cost for PESCO	5,545	4,157	0.25
Eastern Shore and Peninsula Pipeline service expansions*	4,266	3,198	0.19
Margin contribution from Marlin Gas Services and Ohl (assets acquired in December 2018)*	2,805	2,103	0.13
Natural gas distribution - customer growth (excluding service expansions)	1,451	1,088	0.06
Higher propane retail margins per gallon	1,259	944	0.06
Unregulated Energy customers' consumption growth	879	659	0.04
Aspire Energy rate increases	779	584	0.04
Other margin for PESCO operations	731	548	0.03
Natural gas distribution - change in customer consumption (non-weather)	(485)	(364)	(0.02)
Lower wholesale propane margins and sales	(453)	(340)	(0.02)
Conversion of Sandpiper customers to natural gas	382	287	0.02
Florida GRIP*	223	167	0.01
	17,382	13,031	0.79
Decreased (Increased) Other Operating Expenses:			
Depreciation, asset removal and property tax costs due to growth investments	(1,560)	(1,169)	(0.07)
Incentive compensation costs (based on timing and period-over-period results)	(1,931)	(1,448)	(0.09)
Operating expenses for Marlin Gas Services and Ohl (assets acquired in December 2018)	(1,157)	(867)	(0.05)
Benefits and other employee-related expenses	(732)	(549)	(0.03)
Payroll expense (increased staffing and annual salary increases)	(673)	(504)	(0.03)
Operating expenses to support growth for PESCO	(431)	(323)	(0.02)
	(6,484)	(4,860)	(0.29)
Interest charges	(2,046)	(1,534)	(0.09)
Change in effective tax rate	—	768	0.05
Net other changes	(631)	(607)	(0.06)
	(2,677)	(1,373)	(0.10)
First Quarter of 2019 Reported Results	**$ 38,238**	**$ 28,664**	**$ 1.74**

***See the Major Projects and Initiatives table**.

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Summary of Key Factors

Recently Completed and Ongoing Major Projects and Initiatives

We constantly seek and develop additional projects and initiatives in order to increase shareholder value and serve our existing and new customers. The following table represents the major projects recently completed and currently underway. In the future, we will add new projects to this table as such projects are initiated.

	Gross Margin for the Period				
	Three Months Ended March 31,		Year Ended December 31,	Estimate for Fiscal	
in thousands	**2019**	**2018**	**2018**	**2019**	**2020**
Florida GRIP (1)	**$ 3,565**	$ 3,342	$ 13,323	$ 14,204	$ 15,565
2017 Eastern Shore System Expansion Project - including interim services	**4,800**	2,263	9,238	16,183	15,799
Tax benefit retained by certain Florida entities(2)	**2,115**	—	—	3,199	1,879
Northwest Florida Expansion	**1,307**	—	3,485	6,500	6,500
Western Palm Beach County, Florida Expansion	**161**	—	54	605	4,711
Marlin Gas Services	**2,329**	—	110	5,100	6,000
Ohl propane acquisition (rolled into Sharp)	**476**	—	—	1,200	1,236
Del-Mar Energy Pathway Project - including interim services	**165**	—	—	725	3,039
Total	**$ 14,918**	$ 5,605	$ 26,210	$ 47,716	$ 54,729

(1) All periods shown have been adjusted to reflect the lower customer rates as a result of the TCJA. Lower customer rates are offset by the corresponding decrease in federal income tax expense and have no negative impact on net income.

(2) The amount disclosed for the first quarter of 2019 includes tax savings of $1.3 million for the year ended December 31, 2018, due to an order by the Florida PSC allowing reversal of a TCJA refund reserve, recorded in 2018, which increased gross margin for the quarter by that amount.

Ongoing Growth Initiatives

GRIP

Florida GRIP is a natural gas pipe replacement program approved by the Florida PSC that allows automatic recovery, through rates, of costs associated with the replacement of mains and services. Since the program's inception in August 2012, we have invested $131.4 million of capital expenditures to replace 268 miles of qualifying distribution mains, including $4.1 million during the first three months of 2019. GRIP generated additional gross margin of $223,000 for the three months ended March 31, 2019 compared to the same period in 2018.

Major Projects and Initiatives Currently Underway

2017 Eastern Shore System Expansion Project

Eastern Shore has substantially completed the construction of a system expansion project that has increased its capacity by 26 percent. A few remaining segments are expected to be placed into service in various phases during the second quarter of 2019. The project generated $2.5 million in incremental gross margin during the three months ended March 31, 2019, compared to the same period in 2018. The project is expected to produce gross margin of approximately $16.2 million this year; $15.8 million annually, through 2022; and $13.2 million annually thereafter.

Northwest Florida Expansion Project

In May 2018, Peninsula Pipeline completed construction of transmission lines, and our Florida natural gas division completed construction of lateral distribution lines, to serve customers in Northwest Florida. The project generated incremental gross margin of $1.3 million for the three months ended March 31, 2019. The estimated annual gross margin from this project is $6.5 million, with the opportunity for additional margin as the remaining capacity is sold.

Western Palm Beach County Belvedere, Florida Project

Peninsula Pipeline is constructing four transmission lines to bring natural gas to our distribution system in West Palm Beach, Florida. The first phase of this project was placed into service in December 2018 and generated $161,000 in additional gross margin for the three months ended March 31, 2019. We expect to complete the remainder of the project in phases through early 2020, and we estimate that the project will generate gross margin of $605,000 in 2019 and approximately $4.7 million in future years once fully in service.

Marlin Gas Services
In December 2018, Marlin Gas Services, our newly created subsidiary, acquired certain operating assets of Marlin Gas Transport, a supplier of mobile compressed natural gas utility and pipeline solutions. The acquisition will allow us to offer solutions to supply interruption scenarios and provide other unique applications where pipeline supplies are unavailable or inadequate to meet customer requirements. Marlin Gas Services generated $2.3 million of incremental gross margin for the three months ended March 31, 2019. We estimate that this acquisition will generate additional annual gross margin of approximately $5.1 million in 2019 and $6.0 million annually thereafter.

Ohl Propane Acquisition
In December 2018, Sharp acquired certain propane customers and operating assets of Ohl. Located between two of Sharp's existing districts, Ohl provided propane distribution service to approximately 2,500 residential and commercial customers in Pennsylvania. The customers and assets acquired from Ohl have been assimilated into Sharp. The operations acquired from Ohl generated $476,000 of incremental gross margin for the three months ended March 31, 2019. We estimate that this acquisition will generate additional gross margin of approximately $1.2 million for Sharp in 2019, with the potential for additional growth in future years.

Del-Mar Energy Pathway Project
In September 2018, Eastern Shore filed for FERC authorization to construct the Del-Mar Energy Pathway project to provide an additional 14,300 dekatherms per day of capacity to four customers. The benefits of this project include additional natural gas transmission pipeline infrastructure in eastern Sussex County, Delaware, and the initial extension of Eastern Shore’s pipeline system into Somerset County, Maryland. Interim services in advance of this project generated $165,000 for the three months ended March 31, 2019. The estimated annual gross margin from this project is approximately $725,000 in 2019, $3.0 million in 2020, $4.6 million in 2021 and $5.1 million annually thereafter. Eastern Shore anticipates that this project will be fully in-service by mid-2021, contingent upon FERC issuing authorization for the project by August 2019.

<u>Regulatory Initiatives</u>

Florida Tax Savings Related to TCJA
In the first quarter of 2019, the Florida PSC issued orders authorizing certain of our natural gas distribution operations to retain a portion of the tax savings associated with the lower federal tax rates resulting from the TCJA. We expect these savings to continue in future years.

<u>Other major factors influencing gross margin</u>

Weather and Consumption
Weather conditions accounted for a $2.5 million decrease in gross margin during the first quarter of 2019 compared to the same period in 2018. While period-over-period heating degree-days ("HDD") were essentially flat on the Delmarva Peninsula, extreme conditions during the 2018 "Bomb Cyclone" drove weather-related consumption in the first quarter of 2018 compared to the same period in 2019. The decrease in consumption on the Delmarva Peninsula accounted for $1.1 million in lower first quarter 2019 gross margin for the propane operations and $310,000 for the natural gas distribution operations. Weather in Florida was approximately 26 percent warmer in the first quarter of 2019, compared to the same period in 2018, and reduced consumption by propane, electric and natural gas distribution customers which resulted in decreased margin of approximately $951,000. The following table summarizes HDD and cooling degree-day (“CDD”) variances from the 10-year average HDD/CDD ("Normal") for the three months ended March 31, 2019 and 2018.

	Three Months Ended March 31, 2019	2018	Variance
Delmarva			
Actual HDD	**2,322**	2,295	27
10-Year Average HDD ("Normal")	**2,362**	2,354	8
Variance from Normal	**(40)**	(59)	
Florida			
Actual HDD	**361**	490	(129)
10-Year Average HDD ("Normal")	**518**	517	1
Variance from Normal	**(157)**	(27)	
Ohio			
Actual HDD	**2,996**	2,991	5
10-Year Average HDD ("Normal")	**3,045**	3,069	(24)
Variance from Normal	**(49)**	(78)	
Florida			
Actual CDD	**134**	139	(5)
10-Year Average CDD ("Normal")	**97**	89	8
Variance from Normal	**37**	50	

Natural Gas Distribution Margin Growth

New customer growth in the Company's natural gas distribution operations generated $1.5 million of additional margin, which was partially offset by $485,000 in lower margin due to fewer volumes sold to commercial and industrial customers in Florida and at Sandpiper. The details for the three months ended March 31, 2019 are provided in the following table:

(in thousands)	Three Months Ended March 31, 2019
Customer Growth:	
Residential	$ 637
Commercial and industrial, excluding new service in Northwest Florida	529
New service in Northwest Florida	285
Total Customer Growth	1,451
Non-Weather Change in Customer Consumption:	
Residential	(89)
Commercial and industrial	(396)
Total Decline in Customer Consumption	(485)
Total (or net) Increase in Natural Gas Distribution Margin	**$ 966**

The additional margin from new customers reflects an increase of approximately 3.9 percent in the average number of residential customers served on the Delmarva Peninsula, approximately 3.2 percent growth in new residential customers served in Florida, new service to customers in Northwest Florida, as well as an increase in the number of commercial and industrial customers served.

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Propane Operations

Gross margin generated by our propane operations increased by $305,000 during the three months ended March 31, 2019, compared to the same period in 2018. The following table summarizes the year-over-year changes in gross margin for the propane business for the quarter ended March 31, 2019:

		Three Months Ended March 31, 2019
(in thousands)		
Decrease in customer consumption due to warmer weather	$	(1,307)
Increased retail margins per gallon		1,259
Customer growth, increased sales volumes (non-weather-related) and other factors		482
Ohl acquisition (assets acquired in December 2018)		476
Lower wholesale propane margins and sales		(453)
Other		(152)
2019 Change in gross margin by our propane operations	**$**	**305**

Aspire Energy

Gross margin generated by Aspire Energy increased by $796,000 during the three months ended March 31, 2019, compared to the same period in 2018. The increase reflects $779,000 of rate increases and $397,000 of consumption growth, offset by a $380,000 decrease in gross margin due to various factors.

PESCO

PESCO's gross margin for the three months ended March 31, 2019 was higher by $685,000 compared to the same period in 2018. The following table summarizes the changes in PESCO’s quarter-over-quarter margin for the three months ended March 31, 2019:

(in thousands)		Three Months Ended March 31, 2019
Net impact of PESCO's MTM activity	$	(5,591)
Net impact of extraordinary costs associated with the 2018 Bomb Cyclone for the Mid-Atlantic wholesale portfolio [1]		3,284
Mid-Atlantic retail portfolio loss due to pipeline capacity constraints in the first quarter of 2018 [1]		2,261
Other margin for PESCO operations (net)		731
2019 Change in PESCO gross margin	**$**	**685**

[1] The 2018 Bomb Cyclone refers to the high-intensity winter storms in early January 2018 that impacted the Mid-Atlantic region and had a residual impact on our businesses through the month of February 2018. The exceedingly high demand and associated impacts on pipeline capacity and gas supply in the Mid-Atlantic region created significant, unusual costs for PESCO. While such concerted impacts are not expected to occur frequently, our management revisited and refined its risk management strategies and implemented additional controls.

PESCO generated an operating loss of $510,000 for the three months ended March 31, 2019, compared to an operating loss of $764,000 during the prior year period. The improvement in the quarter-over-quarter results reflects higher gross margin growth, partially offset by a $431,000 increase in operating expenses for increased staffing, infrastructure and risk management system resources to support continued execution of PESCO's growth strategy.

Impact of Hurricane Michael

In October 2018, Hurricane Michael passed through FPU's electric distribution operation's service territory in Northwest Florida. The hurricane caused widespread and severe damage to FPU's infrastructure, resulting in 100 percent of its Northwest Florida customers losing electrical service. FPU, after exerting extraordinary hurricane restoration efforts, restored service to those customers who were able to accept it. Through March 31, 2019, FPU has spent approximately $65.0 million to restore service, which has been recorded as new plant and equipment or charged against FPU’s accumulated depreciation and storm reserve. In conjunction with the hurricane-related expenditures, we executed two 13-month unsecured term loans as temporary financing, each in the amount of $30.0 million. The interest cost associated with these loans is LIBOR plus 75 basis points. One term loan was executed in December 2018; the other was executed in January 2019. The storm did not have a material impact on the margin from these operations, as services were restored to a majority of our customers. Pending the outcome of the regulatory filings associated with the storm, our results for the first quarter included higher interest expense of $435,000, or $326,000 on an after-tax basis, associated with the intermediate term loans discussed above. We are in the process of preparing the necessary regulatory filings to seek recovery of the costs incurred, including the associated interest costs.

Regulated Energy Segment

For the quarter ended March 31, 2019, compared to the quarter ended March 31, 2018:

	Three Months Ended March 31,		
(in thousands)	**2019**	**2018**	**Increase (decrease)**
Revenue	**$ 103,618**	$ 109,393	$ (5,775)
Cost of sales	**36,516**	48,231	(11,715)
Gross margin	**67,102**	61,162	5,940
Operations & maintenance	**24,548**	23,147	1,401
Depreciation & amortization	**8,446**	7,516	930
Other taxes	**4,367**	3,788	579
Other operating expenses	**37,361**	34,451	2,910
Operating income	**$ 29,741**	$ 26,711	$ 3,030

Operating income for the Regulated Energy segment for the three months ended March 31, 2019 was $29.7 million, an increase of $3.0 million compared to the same period in 2018. The increased operating income resulted from increased gross margin of $5.9 million, offset by $1.5 million in higher depreciation and taxes and a $1.4 million increase in operating expenses. On February 25, 2019, the Florida PSC issued a final order regarding the treatment of TCJA impact, allowing us to retain the savings associated with lower federal tax rates for certain of our natural gas distribution operations. As a result, $1.3 million in reserves for customer refunds, recorded in 2018, were reversed in 2019. Excluding the impact of the reversal, gross margin and operating income for the three months ended March 31, 2019 increased by $4.6 million and $1.7 million, or 7.6 percent and 6.4 percent, respectively.

Gross Margin

Items contributing to the quarter-over-quarter increase in gross margin are listed in the following table:

(in thousands)	**Margin Impact**
Eastern Shore and Peninsula Pipeline service expansions	$ 4,266
Natural gas distribution - customer growth (excluding service expansions)	1,451
2018 retained tax savings for certain Florida natural gas distribution operations	1,321
Impact of weather on customer consumption (primarily in Florida)	(1,093)
Natural gas distribution - change in customer consumption (non-weather)	(485)
Conversion of Sandpiper customers to natural gas	382
Florida GRIP	223
Other immaterial variances	(125)
Quarter-over-quarter increase in gross margin	**$ 5,940**

The following is a narrative discussion of the significant items in the foregoing table, which we believe is necessary to understand the information disclosed in the table.

Eastern Shore and Peninsula Pipeline Service Expansions
We generated additional gross margin of $4.3 million, primarily from the following natural gas service expansions:
- $2.5 million from Eastern Shore's services in conjunction with its 2017 Expansion Project.
- $1.5 million generated by Peninsula Pipeline from the Belvedere Pipeline and Northwest Pipeline Expansion Projects.

Natural Gas Customer Growth
We generated additional gross margin of $1.5 million from natural gas customer growth. Gross margin increased by $748,000 in Florida and $703,000 on the Delmarva Peninsula.

2018 retained tax savings for Florida natural gas operations
We generated additional gross margin of $1.3 million, due to a final order from the Florida PSC allowing us to retain the tax savings associated with TCJA. Pursuant to the order, refund reserves recorded by our Florida natural gas businesses in 2018, were reversed in 2019. See Note 4, *Rates and Other Regulatory Activities*, for additional information.

Impact of Weather on Customer Consumption
Gross margin decreased by $1.1 million, as weather in Florida was approximately 26 percent warmer in the first quarter of 2019, compared to the same period in 2018. This reduced consumption by Florida electric and natural gas distribution customers, decreasing gross margin by approximately $784,000. Our Delmarva natural gas operations experienced a decrease in margin of $310,000, reflecting the absence, during the first quarter of 2019, of the much higher consumption experienced during the first quarter of 2018 due to the extreme Bomb Cyclone weather conditions.

Consumption Changes (non-weather)
Gross margin decreased by $485,000 due to non-weather-related decreases in customer sales volumes in Florida and on the Delmarva Peninsula.

Sandpiper's margin from natural gas conversions
Gross margin increased by $382,000, due primarily to continuing conversion of the Sandpiper system from propane service to natural gas service.

Florida GRIP
Continued investment in the Florida GRIP generated additional gross margin of $223,000 for the three months ended March 31, 2019, compared to the same period in 2018.

Other Operating Expenses
Items contributing to the quarter-over-quarter increase in operating expenses are listed in the following table:

(in thousands)	**Other Operating Expenses**
Depreciation, amortization and property taxes primarily associated with recent growth projects	$ 1,375
Incentive compensation costs (based on timing and period-over-period results)	653
Outside services, facilities and maintenance costs	(609)
Payroll expense (increased staffing and annual salary increases)	608
Benefits and other employee-related expenses[1]	551
Other immaterial variances	332
Quarter-over-quarter increase in other operating expenses	**$ 2,910**

[1] Since we self-insure for healthcare costs, benefits costs fluctuate depending upon filed claims.

Unregulated Energy Segment

For the quarter ended March 31, 2019, compared to the quarter ended March 31, 2018:

	Three Months Ended March 31,		**Increase**
(in thousands)	**2019**	**2018**	**(decrease)**
Revenue	**$ 138,102**	$ 145,367	$ (7,265)
Cost of sales	**103,700**	115,066	(11,366)
Gross margin	**34,402**	30,301	4,101
Operations & maintenance	**15,555**	13,359	2,196
Depreciation & amortization	**2,611**	2,167	444
Other taxes	**1,109**	1,091	18
Total operating expenses	**19,275**	16,617	2,658
Operating income	**$ 15,127**	$ 13,684	$ 1,443

The Unregulated Energy segment had operating income of $15.1 million and $13.7 million for the three months ended March 31, 2019 and 2018, respectively. The increased operating income of approximately $1.4 million was due to an increase in gross margin of $4.1 million, partially offset by a $2.7 million increase in operating expenses.

Unregulated Energy, excluding PESCO

For the Three Months Ended March 31,	2019	2018	Increase (decrease)
(in thousands)			
Gross margin	**$ 32,542**	$ 29,126	$ 3,416
Depreciation, amortization and property taxes	**2,792**	2,357	435
Other operating expenses	**14,113**	12,321	1,792
Operating Income	**$ 15,637**	$ 14,448	$ 1,189

Gross Margin

Items contributing to the quarter-over-quarter increase in gross margin are listed in the following table:

(in thousands)	Margin Impact
Marlin Gas Services (acquired assets of Marlin Gas Transport in December 2018)	$ 2,329
Propane Operations	
Decrease in weather-related customer consumption due to the absence of the 2018 Bomb Cyclone	(1,307)
Increased retail margins per gallon	1,259
Customer growth, increased sales volumes (non-weather-related) and other factors	482
Ohl acquisition (assets acquired in December 2018)	476
Lower wholesale propane margins and sales	(453)
Aspire Energy	
Rate increases	779
Increased customer consumption	397
Other immaterial variances	(546)
Quarter-over-quarter increase in gross margin	**$ 3,416**

The following is a narrative discussion of the significant items in the foregoing table, which we believe is necessary to understand the information disclosed in the table.

Marlin Gas Services
Gross margin increased by $2.3 million as a result of the acquisition of certain assets of Marlin Gas Transport in December 2018.

Propane Operations - Decreased Customer Consumption - (Weather)
While HDDs were essentially flat period-over-period on the Delmarva Peninsula, extreme conditions during the January 2018 "Bomb Cyclone" drove weather-related consumption in the first quarter of 2018 compared to the same period in 2019, and which reduced gross margin by $1.1 million for the Delmarva propane operations. Weather in Florida was approximately 26 percent warmer in the first quarter of 2019 reducing consumption by propane distribution customers and decreasing gross margin by approximately $167,000, compared to the same period in 2018.

Propane Operations - Increased Retail Margins Per Gallon
Gross margin increased by $1.3 million, due to lower propane costs during the first quarter of 2019, compared to the same period in 2018. Our retail pricing strategy, guided by local market conditions, further increased margins in the first quarter of 2019. These market conditions, which include competition with other propane suppliers, as well as the availability and price of alternative energy sources, may fluctuate based on changes in demand, supply and other energy commodity prices.

Aspire Energy - Increased Margin Driven by Changes in Rates
Gross margin increased by $779,000, due primarily to changes in customer rates on various dates during 2018.

Aspire Energy - Increased Margin Driven by Growth in Customer Consumption
Gross margin increased by $397,000, due to an increase in customer consumption during the first quarter of 2019, compared to the same period in 2018.

Propane Operations - Increased Margin Driven by Growth and Other Factors
Gross margin increased by $482,000, due to increased propane sales as a result of customer growth and other factors in Florida and the Mid-Atlantic region.

Propane Operations - Ohl Acquisition
Gross margin increased by $476,000 as a result of the acquisition of R.F. Ohl in December 2018, which was rolled into Sharp.

Wholesale Propane Margins
Gross margin decreased by $453,000 in 2019 due to a lower margin per gallon and a decrease in volumes delivered for the Mid-Atlantic propane operations.

Other Operating Expenses

Other operating expenses increased by $2.2 million in the first quarter of 2019. The significant components of the increase in other operating expenses included:

(in thousands)		Other Operating Expenses
Operating expenses associated with operating Marlin Gas Services and Ohl (Asset acquisitions in December 2018)	$	1,157
Incentive compensation costs (based on timing and period-over-period results)		466
Outside services and facilities maintenance costs		286
Depreciation, asset removal and property tax costs due to new capital investments		187
Benefits and other employee-related expenses[1]		133
Other immaterial variances		(2)
Quarter-over-quarter increase in other operating expenses	**$**	**2,227**

[1] Since the Company self-insures for healthcare costs, benefits costs fluctuate depending upon filed claims.

PESCO

For the Three Months Ended March 31,		2019		2018		Increase (decrease)
(in thousands)						
Gross margin	**$**	**1,860**	$	1,175	$	685
Depreciation, amortization and property taxes		**147**		148		(1)
Other operating expenses		**2,223**		1,791		432
Operating Income	**$**	**(510)**	$	(764)	$	254

For the three months ended March 31, 2019, PESCO's gross margin increased by $685,000 compared to the same period in 2018. Higher gross margin from PESCO for the three months ended March 31, 2019 resulted from the following:

(in thousands)		Margin Impact
Net impact of PESCO's MTM activity	$	(5,591)
Net impact of extraordinary costs associated with the 2018 Bomb Cyclone for the Mid-Atlantic wholesale portfolio [1]		3,284
Mid-Atlantic retail portfolio loss due to pipeline capacity constraints in the first quarter of 2018 [1]		2,261
Other margin for PESCO operations (net)		731
Quarter-over-quarter increase in gross margin for PESCO	**$**	**685**

[1] The 2018 Bomb Cyclone refers to the high-intensity winter storms in early January 2018 that impacted the Mid-Atlantic region and had a residual impact on our businesses through the month of February. The exceedingly high demand and associated impacts on pipeline capacity and gas supply in the Mid-Atlantic region created significant, unusual costs for PESCO. While such concerted impacts are not expected to occur frequently, our management revisited and refined its risk management strategies and implemented additional controls.

Operating expenses increased by $432,000, reflecting increased staffing, infrastructure and risk management systems necessary to support growth. Overall, PESCO's quarter-over-quarter performance improved by $254,000.

OTHER INCOME (EXPENSE), NET

For the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018

Other income (expense), net, which includes non-operating investment income (expense), interest income, late fees charged to customers, gains or losses from the sale of assets and pension and other benefits expense, decreased by $113,000 in the first quarter of 2019, compared to the same period in 2018.

INTEREST CHARGES

For the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018

Interest charges for the three months ended March 31, 2019 increased by $2.0 million, compared to the same period in 2018, attributable primarily to an increase of $980,000 in interest on higher levels of short-term borrowings, and an increase of $742,000 in interest on long-term debt, largely as a result of the issuance of the NYL Shelf Notes in May and November 2018 and term notes issued in December 2018 and January 2019 to finance the restoration of service to customers who lost service due to the impact of Hurricane Michael.

INCOME TAXES

For the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018

Income tax expense was $9.6 million for the three months ended March 31, 2019, compared to $10.0 million in the same period in 2018. The decrease in income tax expense was attributed to the amortization of deferred taxes gross up associated with TCJA. Our effective income tax rate was 25.0 percent and 27.0 percent, for the three months ended March 31, 2019 and 2018, respectively.

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FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

Our capital requirements reflect the capital-intensive and seasonal nature of our business and are principally attributable to investment in new plant and equipment, retirement of outstanding debt and seasonal variability in working capital. We rely on cash generated from operations, short-term borrowings, and other sources to meet normal working capital requirements and to temporarily finance capital expenditures. We may also issue long-term debt and equity to fund capital expenditures and to more closely align our capital structure with our target capital structure.

Our energy businesses are weather-sensitive and seasonal. We normally generate a large portion of our annual net income and subsequent increases in our accounts receivable in the first and fourth quarters of each year due to significant volumes of natural gas, electricity, and propane delivered by our distribution operations, and our natural gas gathering and processing operation 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.

Capital expenditures for investments in new or acquired plant and equipment are our largest capital requirements. Our capital expenditures were $33.8 million for the three months ended March 31, 2019.

The following table shows the 2019 capital expenditure budget of $168.2 million by segment and by business line:

(dollars in thousands)		2019
Regulated Energy:		
Natural gas distribution	$	64,143
Natural gas transmission		66,787
Electric distribution		5,949
Total Regulated Energy		136,879
Unregulated Energy:		
Propane distribution		11,870
Energy transmission		8,345
Other unregulated energy		1,416
Total Unregulated Energy		21,631
Other:		
Corporate and other businesses		9,705
Total Other		9,705
Total 2019 Budgeted Capital Expenditures	$	168,215

The 2019 budget, excluding acquisitions, includes: Eastern Shore's 2017 Expansion Project and Del-Mar Energy Pathway Project, Florida's Palm Beach County Western Expansion and other potential pipeline projects, continued expenditures under Florida GRIP, further expansions of our natural gas distribution and transmission systems, continued natural gas infrastructure improvement activities, information technology systems, new buildings and facilities, and other strategic initiatives and investments.

The capital expenditure projection 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. Historically, actual capital expenditures have typically lagged behind the budgeted amounts.

The timing of capital expenditures can vary based on delays in regulatory approvals, securing environmental approvals and other permits. The regulatory application and approval process has lengthened in the past few years, and we expect this trend to continue.

Capital Structure

We are committed to maintaining a sound capital structure and strong credit ratings to provide the financial flexibility needed to access capital markets when required. This commitment, along with adequate and timely rate relief for our regulated energy operations, is intended to ensure our ability to attract capital from outside sources at a reasonable cost, which will benefit our customers, creditors, employees and stockholders.

The following table presents our capitalization, excluding and including short-term borrowings, as of March 31, 2019 and December 31, 2018:

(in thousands)	March 31, 2019		December 31, 2018	
Long-term debt, net of current maturities	**$ 285,998**	**34%**	$ 316,020	38%
Stockholders' equity	**543,659**	**66%**	518,439	62%
Total capitalization, excluding short-term debt	**$ 829,657**	**100%**	$ 834,459	100%

(in thousands)	March 31, 2019		December 31, 2018	
Short-term debt	**$ 276,393**	**24%**	$ 294,458	26%
Long-term debt, including current maturities	**357,507**	**30%**	327,955	29%
Stockholders' equity	**543,659**	**46%**	518,439	45%
Total capitalization, including short-term debt	**$ 1,177,559**	**100%**	$ 1,140,852	100%

Included in the long-term debt balances at March 31, 2019 and December 31, 2018, were finance lease obligations for Sandpiper and Sharp. Sandpiper entered into a capacity, supply and operating agreement which expires in May 2019. The capacity portion of this agreement is accounted for as a finance lease. At March 31, 2019 and December 31, 2018, the remaining balance of $249,000 and $620,000, respectively, was included in current maturities.

Sharp had previously entered into an agreement to rent property in Anne Arundel County, Maryland, which it subsequently acquired in April 2019 (at March 31, 2019, $660,000 of current maturities and at December 31, 2018, $690,000 of current maturities).

Our target ratio of equity to total capitalization, including short-term borrowings, is between 50 and 60 percent. Including the funds expended specifically related to the impact of Hurricane Michael, our equity to total capitalization ratio, including short-term borrowings, was 46.0 percent as of March 31, 2019. Excluding the funds expended for Hurricane Michael restoration activities, our equity to total capitalization ratio, including short-term borrowings, would have been approximately 49 percent. The Company seeks to align permanent financing with the in-service dates of its capital projects. The Company may utilize more temporary short-term debt when the financing cost is attractive as a bridge to the permanent long-term financing.

Term Notes

In December 2018, we issued a $30.0 million unsecured term note through PNC Bank N.A. with maturity of January 21, 2020. The interest rate at March 31, 2019 and December 31, 2018 was 3.24% and 3.23%, respectively, which equals one month LIBOR rate plus 75 basis points. In January 2019, we issued a $30.0 million unsecured term note through Branch Banking and Trust Company, with maturity of February 28, 2020. The interest rate at March 31, 2019 was 3.24% which equals one month LIBOR rate plus 75 basis points. These term notes totaling $60.0 million are included in the current maturities of long-term debt as of March 31, 2019.

Shelf Agreements

We have entered into Shelf Agreements with Prudential, MetLife and NYL who are under no obligation to purchase any unsecured debt. The proceeds received from the issuances of these shelf notes was used to reduce borrowings under the Revolver and/or lines of credit and/or to fund capital expenditures. We entered into the Prudential Shelf Agreement, totaling $150.0 million, in October 2015, and we issued $70.0 million of 3.25% unsecured debt in April 2017. The Prudential Shelf Agreement was then amended in September 2018 to increase the borrowing capacity back up to $150.0 million, and Prudential accepted our request to purchase our unsecured debt of $100.0 million at an interest rate of 3.98% on or before August 20, 2019. We entered into the NYL Shelf Agreement, totaling $100.0 million, in March 2017, and we issued unsecured debt totaling $100.0 million during 2018. The NYL Shelf Agreement was amended in November 2018 to add incremental borrowing capacity of $50.0 million. As of March 31, 2019, we had not requested that MetLife purchase unsecured senior debt under the MetLife Shelf Agreement, which we entered into in March 2017. The following table summarizes our shelf agreements borrowing information at March 31, 2019:

(in thousands)	Total Borrowing Capacity	Less: Amount of Debt Issued	Less: Unfunded Commitments	Remaining Borrowing Capacity
Shelf Agreement				
Prudential Shelf Agreement	$ 220,000	$ (70,000)	$ (100,000)	$ 50,000
MetLife Shelf Agreement	150,000	—	—	150,000
NYL Shelf Agreement	150,000	(100,000)	—	50,000
Total	$ 520,000	$ (170,000)	$ (100,000)	$ 250,000

The Shelf Agreements or Shelf Notes set forth certain business covenants to which we are subject when any note is outstanding, including covenants that limit or restrict our ability, and the ability of our subsidiaries, to incur indebtedness, or place or permit liens and encumbrances on any of our property or the property of our subsidiaries.

Short-term Borrowings

Our outstanding short-term borrowings at March 31, 2019 and December 31, 2018 were $276.4 million and $294.5 million at weighted average interest rates of 3.75 percent and 3.44 percent, respectively. Our current short-term borrowing limit, authorized by our Board of Directors, is $370.0 million.

We utilize bank lines of credit to provide funds for our short-term cash needs to meet seasonal working capital requirements and to temporarily fund portions of the capital expenditure program. As of March 31, 2019, we had five unsecured bank credit facilities with four financial institutions totaling $220.0 million in available credit. In addition, we have a $150.0 million Revolver under which borrowings can be designated as short-term debt. The terms of the Revolver are further described below. None of the unsecured bank lines of credit requires compensating balances.

The $150.0 million Revolver is available through October 8, 2020 and is subject to the terms and conditions set forth in the credit agreement among us and the lenders related to the Revolver ("Credit Agreement"). Borrowings under the Revolver will be used for general corporate purposes, including repayments of short-term borrowings, working capital requirements and capital expenditures. Borrowings under the Revolver will bear interest at: (i) the LIBOR Rate plus an applicable margin of 1.25 percent or less, with such margin based on total indebtedness as a percentage of total capitalization, both as defined by the Credit Agreement, or (ii) the base rate plus 0.25 percent or less. Interest is payable quarterly, and the Revolver is subject to a commitment fee on the unused portion of the facility. We have the right, under certain circumstances, to extend the expiration date for up to two years on any anniversary date of the Revolver, with such extension subject to the lenders' approval. We may also request the lenders to increase the Revolver to $200.0 million, with any increase at the sole discretion of each lender.

Cash Flows

The following table provides a summary of our operating, investing and financing cash flows for the three months ended March 31, 2019 and 2018:

	Three Months Ended March 31,	
(in thousands)	**2019**	**2018**
Net cash provided by (used in):		
Operating activities	**$ 40,486**	$ 66,672
Investing activities	**(43,369)**	(62,971)
Financing activities	**4,769**	(3,319)
Net increase in cash and cash equivalents	**1,886**	382
Cash and cash equivalents—beginning of period	**6,089**	5,614
Cash and cash equivalents—end of period	**$ 7,975**	$ 5,996

Cash Flows Provided By Operating Activities

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

During the three months ended March 31, 2019 and 2018, net cash provided by operating activities was $40.5 million and $66.7 million, respectively, resulting in a decrease in cash flows of $26.2 million. Significant operating activities generating the cash flows change were as follows:

- Changes in net accounts receivable and accrued revenue and accounts payable and accrued liabilities decreased cash flows by $9.4 million, due primarily to the timing and receipt of payments.
- Changes in net regulatory assets and liabilities decreased cash flows by $8.4 million, due primarily to the change in fuel costs collected through the various cost recovery mechanisms.
- Net cash flows from changes in propane inventory, storage gas and other inventories decreased by approximately $5.2 million due primarily to lower levels of our inventory during 2018.
- Net income, adjusted for reconciling activities, decreased cash flows by $5.4 million, primarily due to the absence of deferred tax assets pertaining to the availability and utilization of bonus depreciation during 2018, offset by an increase in net income and higher non-cash adjustments for depreciation and amortization related to increased investing activities.

Cash Flows Used in Investing Activities

Net cash used in investing activities totaled $43.4 million and $63.0 million during the three months ended March 31, 2019 and 2018, respectively, resulting in an increase in cash of $19.6 million. Cash paid for capital expenditures decreased by $19.9 million to $43.2 million for the first three months of 2019, compared to $63.1 million for the same period in 2018.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities totaled $4.8 million during the three months ended March 31, 2019 compared to net cash of $3.3 million used in financing activities during the prior year period resulting in an increase in cash flows of $8.1 million. The increase in net cash provided by financing activities resulted primarily from the following:

- Increased cash flows of $5.0 million as a result of $30.0 million in proceeds from a term note issued in January 2019. During the three months ended March 31, 2018, we received $25.0 million in proceeds from the Revolver, which was advanced on a long-term basis.
- Increased cash flows from lower repayments of short-term borrowing of $6.1 million under our line of credit arrangements.
- Decreased cash flows of $2.3 million as a result of changes in cash overdrafts and;
- Cash dividends of $5.9 million paid during the three months ended March 31, 2019, compared to $5.1 million for the three months ended March 31, 2018.

Off-Balance Sheet Arrangements

We have issued corporate guarantees to certain vendors of our subsidiaries that provide for the payment of propane and natural gas purchases in the event of the subsidiary's default. The liabilities for these purchases are recorded in our financial statements when incurred. The aggregate amount guaranteed at March 31, 2019 was $77.3 million, with the guarantees expiring on various dates through December 2020.

We have issued letters of credit totaling $7.0 million related to the electric transmission services for FPU's northwest electric division, the firm transportation service agreement between TETLP and our Delaware and Maryland divisions, and to our current and previous primary insurance carriers with expiration dates extending through March 2020. There were no draws on these letters of credit as of March 31, 2019. We do not anticipate that the letters of credit will be drawn upon by the counterparties, and we expect that the letters of credit will be renewed to the extent necessary in the future. Additional information is presented in Note 6*, Other Commitments and Contingencies* in the condensed consolidated financial statements.

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Contractual Obligations

There has been no material change in the contractual obligations presented in our 2018 Annual Report on Form 10-K, except for long-term debt and commodity purchase obligations entered into in the ordinary course of our business. The following table summarizes long-term debt and commodity purchase contract obligations at March 31, 2019:

	Payments Due by Period				
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	Total
(in thousands)					
Long-term debt [1]	$ 70,600	$ 29,200	$ 45,700	$ 211,700	**$ 357,200**
Purchase obligations - Commodity [2]	112,947	34,384	13,483	11,762	**172,576**
Total	**$ 183,547**	**$ 63,584**	**$ 59,183**	**$ 223,462**	**$ 529,776**

(1) Excludes finance lease obligation, debt issuance costs and an unamortized discount of $307,000.

(2) In addition to the obligations noted above, we have agreements with commodity suppliers that have provisions with no minimum purchase requirements. There are no monetary penalties for reducing the amounts purchased; however, the propane contracts allow the suppliers to reduce the amounts available in the winter season if we do not purchase specified amounts during the summer season. Under these contracts, the commodity prices will fluctuate as market prices fluctuate.

Rates and Regulatory Matters

Our natural gas distribution operations in Delaware, Maryland and Florida and electric distribution operation in Florida are subject to regulation by the respective state PSC; Eastern Shore is subject to regulation by the FERC; and Peninsula Pipeline is subject to regulation by the Florida PSC. At March 31, 2019, we were involved in regulatory matters in each of the jurisdictions in which we operate. Our significant regulatory matters are fully described in Note 4, *Rates and Other Regulatory Activities*, to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Recent Authoritative Pronouncements on Financial Reporting and Accounting

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

Item 3. Quantitative and Qualitative Disclosures about Market Risk

INTEREST RATE RISK

Long-term debt is subject to potential losses based on changes in interest rates. Our long-term debt at March 31, 2019, consists of fixed-rate Senior Notes and $8.0 million of fixed-rate secured debt. We evaluate whether to refinance existing debt or permanently refinance existing short-term borrowings based in part on the fluctuation in interest rates. Additional information about our long-term debt is disclosed in Note 14, *Long-term Debt,* in the condensed consolidated financial statements.

COMMODITY PRICE RISK

Regulated Energy Segment

We have entered into agreements with various wholesale suppliers to purchase natural gas and electricity for resale to our customers. Our regulated energy distribution businesses that sell natural gas or electricity to end-use customers have fuel cost recovery mechanisms authorized by the PSCs that allow us to recover all of the costs prudently incurred in purchasing natural gas and electricity for our customers. Therefore, our regulated energy distribution operations have limited commodity price risk exposure.

Unregulated Energy Segment

Our propane operations are exposed to commodity price risk as a result of the competitive nature of retail pricing offered to our customers. In order to mitigate this risk, we utilize propane storage activities and forward contracts for supply.

We can store up to approximately 7 million gallons of propane (including leased storage and rail cars) during the winter season to meet our customers' peak requirements and to serve metered customers. Decreases in the wholesale price of propane may cause the value of stored propane to decline, particularly if we utilize fixed price forward contracts for supply. To mitigate the risk of propane commodity price fluctuations on the inventory valuation, we have adopted a Risk Management Policy that allows our propane distribution operation to enter into fair value hedges, cash flow hedges or other economic hedges of our inventory.

Aspire Energy is exposed to commodity price risk, primarily during the winter season, to the extent we are not successful in balancing our natural gas purchases and sales and have to secure natural gas from alternative sources at higher spot prices. In order to mitigate this risk, we procure firm capacity that meets our estimated volume requirements and we continue to seek out new producers in order to fulfill our natural gas purchase requirements.

PESCO is a party to natural gas swap and futures contracts, which provide us the right to purchase natural gas at a fixed price at future dates. Upon expiration, the contracts can be settled financially without taking delivery of natural gas, or PESCO can procure natural gas and deliver it to its customers. PESCO is subject to commodity price risk on its open positions to the extent that market prices for natural gas liquids and natural gas deviate from fixed contract settlement prices. Market risk associated with the trading of futures and forward contracts is monitored daily for compliance with our Risk Management Policy, which includes volumetric limits for open positions. To manage exposures to changing market prices, open positions are marked up or down to market prices and reviewed daily by our oversight officials. In addition, the Risk Management Committee reviews periodic reports on markets, 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.

The following table reflects the changes in the fair market value of financial derivatives contracts related to natural gas and propane purchases and sales from December 31, 2018 to March 31, 2019:

(in thousands)	Balance at December 31, 2018	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance at March 31, 2019
PESCO	$ (184)	$ 3,807	$ (617)	**$ 3,006**
Sharp	(1,522)	354	585	**(583)**
Total	$ (1,706)	$ 4,161	$ (32)	**$ 2,423**

There were no changes in methods of valuations during the three months ended March 31, 2019.

The following is a summary of fair market value of financial derivatives as of March 31, 2019, by method of valuation and by maturity for each fiscal year period.

(in thousands)	2019	2020	2021	2022	Total Fair Value
Price based on ICE - PESCO	$ 18	$ 2,091	$ 848	$ 49	$ 3,006
Price based on Mont Belvieu - Sharp	(386)	(161)	(36)	—	(583)
Total	$ (368)	$ 1,930	$ 812	$ 49	$ 2,423

WHOLESALE CREDIT RISK

The Risk Management Committee reviews credit risks associated with counterparties to commodity derivative contracts prior to such contracts being approved.

Additional information about our derivative instruments is disclosed in Note 12, *Derivative Instruments,* in the condensed consolidated financial statements.

INFLATION

Inflation affects the cost of supply, labor, products and services required for operations, maintenance and capital improvements. To help cope with the effects of inflation on our capital investments and returns, we periodically seek rate increases from regulatory commissions for our regulated operations and closely monitor the returns of our unregulated energy business operations. To compensate for fluctuations in propane gas prices, we adjust propane sales prices to the extent allowed by the market.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of Chesapeake Utilities, with the participation of other Company officials, have evaluated our “disclosure controls and procedures” (as such term is defined under Rules 13a-15(e) and 15d-15(e), promulgated under the Securities Exchange Act of 1934, as amended) as of March 31, 2019. Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2019.

Changes in Internal Control over Financial Reporting

Beginning January 1, 2019, we adopted ASU 2016-02, *Leases*. The impacts of the adoption are discussed in detail in Note 1, Summary of Accounting Policies, and Note 15, Leases, in the notes to the condensed consolidated financial statements within this Form 10-Q. In conjunction with this adoption, we implemented changes to our controls related to leases, which were not material to our internal controls over financial reporting. These included the development of new policies for the identification of leases and other ongoing monitoring activities. These controls were designed to provide assurance, at a reasonable level, of the fair presentation of our condensed consolidated financial statements and related disclosures. During the quarter ended March 31, 2019, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II—OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

Our business, operations, and financial condition are subject to various risks and uncertainties. The risk factors described in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K, for the year ended December 31, 2018, should be carefully considered, together with the other information contained or incorporated by reference in this Quarterly Report on Form 10-Q and in our other filings with the SEC in connection with evaluating Chesapeake Utilities, our business and the forward-looking statements contained in this Quarterly Report on Form 10-Q. Additional risks and uncertainties not known to us at present, or that we currently deem immaterial, also may affect Chesapeake Utilities. The occurrence of any of these known or unknown risks could have a material adverse impact on our business, financial condition and results of operations.

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

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]
January 1, 2019 through January 31, 2019 [1]	**388**	**$ 81.65**	—	—
February 1, 2019 through February 28, 2019	—	$ —	—	—
March 1, 2019 through March 31, 2019	—	$ —	—	—
Total	**388**	**$ 81.65**	—	—

[1] Chesapeake Utilities purchased shares of common stock on the open market for the purpose of reinvesting the dividend on shares held in the Rabbi Trust accounts for certain directors and senior executives under the Non-Qualified Deferred Compensation Plan. The Non-Qualified Deferred Compensation Plan is discussed in detail in Item 8 under the heading "Notes to the Consolidated Financial Statements—Note 9, *Employee Benefit Plans*" in our latest Annual Report on Form 10-K for the year ended December 31, 2018. During the quarter ended March 31, 2019, 388 shares were purchased through the reinvestment of dividends on deferred stock units.

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

Item 3. Defaults upon Senior Securities

None.

Item 5. Other Information

None.

Item 6. Exhibits

10.1*	Term Note issued by Chesapeake Utilities Corporation in favor of Branch Banking and Trust Company on January 31, 2019.
10.2*	Term Loan Credit Agreement, dated January 31, 2019, by and between Chesapeake Utilities Corporation and Branch Banking and Trust Company.
31.1*	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2*	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
32.1*	Certificate of Chief Executive Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350.
32.2*	Certificate of Chief Financial Officer of Chesapeake Utilities Corporation pursuant to 18 U.S.C. Section 1350.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

*Filed herewith

SIGNATURES

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

CHESAPEAKE UTILITIES CORPORATION

/S/ BETH W. COOPER

Beth W. Cooper
Executive Vice President, Chief Financial Officer, and
Assistant Corporate Secretary

Date: May 8, 2019

TERM LOAN CREDIT AGREEMENT

by and between

BRANCH BANKING AND TRUST COMPANY

and

CHESAPEAKE UTILITIES CORPORATION

January [●], 2019

TERM LOAN CREDIT AGREEMENT

THIS TERM LOAN CREDIT AGREEMENT (the "Agreement") is made as of the [●] day of January, 2019, by and between CHESAPEAKE UTILITIES CORPORATION, a Delaware corporation ("Borrower"), and BRANCH BANKING AND TRUST COMPANY ("Bank"). Borrower and Bank agree, under seal, as follows:

BACKGROUND

A. Borrower desires that Bank extend to Borrower a $30,000,000.00 term loan (the "Term Loan").

B. Bank is willing to make the Term Loan available to Borrower, subject to the terms and conditions hereof.

ARTICLE 1
DEFINITIONS

Section 1.1. Definitions. When used in this Agreement, the following terms shall have the respective meanings set forth below.

1.1.1. Reserved.

1.1.2. Reserved.

1.1.3. Reserved.

1.1.4. "Affiliate" means as to any Person, each other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with the Person in question. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract, or otherwise.

1.1.5. "Agreement" means this Term Loan Credit Agreement and all exhibits and schedules hereto, as each may be amended, renewed, replaced, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

1.1.6. "Applicable Margin" has the meaning ascribed to such term on Exhibit A attached hereto and made a part hereof.

1.1.7. "Bank" means Branch Banking and Trust Company, and its successors and assigns pursuant to Section 9.3 hereof.

1.1.8. "Bank Indebtedness" means all obligations and indebtedness of Borrower to Bank, whether now or hereafter owing or existing, including without limitation all obligations under the Credit Documents, all obligations under any interest rate swap agreements or arrangements with the Bank designed to protect the Borrower against fluctuations in interest rates or currency exchange rates, and all other obligations or undertakings now or hereafter made by or for the benefit of Borrower under any other agreement, promissory note or undertaking now existing or hereafter entered into by Borrower with Bank related to the Credit Documents, including, without limitation, all obligations of Borrower to Bank under any guaranty or surety agreement and all obligations of Borrower to immediately pay to Bank the amount of any overdraft on any deposit account maintained with Bank, together with all interest and other sums payable in connection with any of the foregoing (including without limitation interest and fees that accrue after the commencement by or against Borrower or any Affiliate thereof of any proceeding under any Debtor Relief Law naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding).

1.1.9. "Beneficial Ownership Certification" means a certification regarding beneficial ownership as required by the Beneficial Ownership Regulation.

1.1.10. "Beneficial Ownership Regulation" means 31 C.F.R. § 1010.230.

1.1.11. "Borrower" means Chesapeake Utilities Corporation, a Delaware corporation.

1.1.12. "Business Day" has the meaning ascribed to such term on Exhibit A attached hereto.

1.1.13. "Closing Date" means the date on which all the conditions set forth in Article 4 have been satisfied.

1.1.14. "Code" means the Internal Revenue Code of 1986, as amended from time to time, and all rules and regulations with respect thereto in effect from time to time.

1.1.15. "Credit Documents" means this Agreement, the Note and any other agreements, documents, instruments and writings now or hereafter existing, creating, evidencing, guarantying, securing or relating to any of the liabilities of Borrower to the Bank together with all amendments, modifications, renewals or extensions thereof.

1.1.16. "Debtor Relief Law" means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

1.1.17. "Default" means an event, condition or circumstance the occurrence of which would, with the giving of notice or the passage of time, or both, constitute an Event of Default.

1.1.18. "Default Rate" has the meaning set forth in Section 2.2 hereof.

1.1.19. "Dollars" or "$" means the lawful currency of the United States.

1.1.20. "Environmental Control Statutes" means any federal, state, county, regional or local laws governing the control, storage, removal, spill, release or discharge of Hazardous Substances, including without limitation CERCLA, the Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 and the Hazardous and Solid Waste Amendments of 1984, the Federal Water Pollution Control Act, as amended by the Clean Water Act of 1976, the Hazardous Materials Transportation Act, the Emergency Planning and Community Right to Know Act of 1986, the National Environmental Policy Act of 1975, the Oil Pollution Act of 1990, any similar or implementing state law, and in each case including all amendments thereto and all rules and regulations promulgated thereunder and permits issued in connection therewith.

1.1.21. "EPA" means the United States Environmental Protection Agency, or any successor thereto.

1.1.22. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, any successor statute of similar import, and all rules and regulations with respect thereto in effect from time to time.

1.1.23. "ERISA Affiliate" means any Person that is a member of any group or organization within the meaning of Code sections 414(b), (c), (m) or (o) of which Borrower is a member.

1.1.24. "Event of Default" means an event described in Section 8.1 hereof.

1.1.25. "Existing Credit Agreement" means that certain Credit Agreement, dated as of October 8, 2015, by and among the Borrower, the lenders party thereto and PNC Bank, National Association as administrative agent, swing loan lender and issuing lender, as amended, restated, refinanced, extended, replaced, supplemented or otherwise modified from time to time.

1.1.26. "Funded Debt" means all indebtedness for borrowed money having an original term of more than one year, including, but not limited to, capitalized lease obligations, reimbursement obligations in respect of letters of credit, and guaranties of any such indebtedness.

1.1.27. "GAAP" means generally accepted accounting principles as in effect in the United States of America set forth in the Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants and in statements of the Financial Accounting Standards Board and in such other statements by such other entity as Bank may reasonably approve, which are applicable in the circumstances as of the date in question; and such principles observed in a current period shall be comparable in all material respects to those applied in a preceding period.

1.1.28. "Hazardous Substance" means petroleum products and items defined in the Environmental Control Statutes as "hazardous substances", "hazardous wastes", "pollutants" or "contaminants" and any other toxic, reactive, corrosive, carcinogenic, flammable or hazardous substance or other pollutant.

1.1.29. "Indebtedness" means:

(a) means (i) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (ii) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (iii) all obligations of such Person upon which interest charges are customarily paid, (iv) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (v) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (vi) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptance.

(b) all indebtedness, obligations, and liabilities secured by any mortgage, pledge, lien, conditional sale or other title retention agreement or other security interest to which any property or asset owned or held by such Person is subject, whether or not the indebtedness, obligations or liabilities secured thereby shall have been assumed by such Person; and

(c) to the extent not included in the foregoing, all indebtedness, obligations and liabilities of others which such Person has directly or indirectly guaranteed, endorsed (other than for collection or deposit in the ordinary course of business), sold with recourse, or agreed (contingently or otherwise) to purchase or repurchase or otherwise acquire or in respect of which such Person has agreed to supply or advance funds (whether by way of loan, stock purchase, capital contribution or otherwise) or otherwise to become directly or indirectly liable.

1.1.30. "Interest Rate" means the LIBOR Rate or, if applicable pursuant to Exhibit A attached hereto, the Prime Rate.

1.1.31. "Late Charge" has the meaning set forth in Section 2.2 hereof.

1.1.32. "Material Adverse Effect" means either singly or in the aggregate, the occurrence of any event, condition, circumstance or proceeding that materially and adversely affects the financial condition or operations of the Borrower and its Subsidiaries taken as a whole or the Borrower's ability to perform its obligations under this Agreement and the other Credit Documents.

1.1.33. Reserved.

1.1.34. "Maturity Date" means February [●], 2020.

1.1.35. "Note" shall mean the promissory note, dated of even date herewith, of the Borrower payable to the order of the Bank, as the same may be amended, renewed, replaced, or supplemented from time to time, evidencing the Term Loan.

1.1.36. "PBGC" means the Pension Benefit Guaranty Corporation, or any successor thereto.

1.1.37. "Person" means an individual, corporation, trust, limited partnership, general partnership, limited liability company or unincorporated association, governmental entity, agency, instrumentality, or political subdivision thereof, or any other form of entity or organization.

1.1.38. "Plan" means any pension benefit or welfare benefit plan as defined in sections 3(1), (2) or (3) of ERISA maintained or sponsored by, contributed to, or covering employees of, Borrower or any ERISA Affiliate.

1.1.39. "Prime Rate" has the meaning ascribed on Exhibit A attached hereto.

1.1.40. "Regulation D" means Regulation D of the Board of Governors of the Federal Reserve System, comprising Part 204 of Title 12, Code of Federal Regulations, as amended from time to time, and any successor thereto.

1.1.41. "Release" means any spill, leak, emission, discharge, release or the pumping, pouring, emptying, disposing, injecting, escaping, leaching or dumping of a Hazardous Substance.

1.1.42. "Subsidiary" of any Person at any time means any corporation, trust, partnership, limited liability company or other business entity (i) of which more than 50% of the outstanding voting securities or other interests normally entitled to vote for the election of one or more directors, managers, managing members, trustees or similar positions (regardless of any contingency which does or may suspend or dilute the voting rights) is at such time owned directly or indirectly by such Person or one or more of such

Person’s Subsidiaries, or (ii) which is controlled or capable of being controlled by such Person or one or more of such Person's Subsidiaries.

1.1.43. “Term Loan Commitment” has the meaning set forth in Section 2.1.

Section 1.2. Rules of Construction, Interpretation.

1.2.1. GAAP. Except as otherwise provided herein, financial and accounting terms used in the foregoing definitions or elsewhere in this Agreement, shall be defined in accordance with GAAP. Where the character or amount of any asset or liability or item of income or expense is required to be determined or any consolidation or other accounting computation is required to be made for the purposes of this Agreement, the same shall be done in accordance with GAAP, to the extent applicable, except where such principles are inconsistent with the requirements of this Agreement.

1.2.2. Directly or Indirectly. Where any provision in this Agreement refers to action to be taken by any Person, or that such person is prohibited from taking, such provision shall be applicable whether the action in question is taken directly or indirectly by such Person.

1.2.3. Plural / Singular. Except as otherwise provided herein, capitalized terms used in the foregoing definitions or elsewhere in this Agreement that are defined in the singular may also be used in the plural and any such terms which are defined in the plural may also be used in the singular.

1.2.4. Uniform Commercial Code. Except as otherwise provided herein, capitalized terms used in the foregoing definitions or elsewhere in this Agreement that are defined in the Uniform Commercial Code, including without limitation, “Accounts,” “Documents,” “Instruments,” “General Intangibles,” and “Chattel Paper” shall have the respective meanings ascribed to such terms in the Uniform Commercial Code as in effect in the State of Delaware from time to time (“UCC”).

ARTICLE 2
TERM LOAN

Section 2.1. The Term Loan. The Bank agrees, subject to the terms and conditions set forth hereof and in reliance on the representations and warranties set forth herein, to make a Term Loan to Borrower on the Closing Date in the principal amount of Thirty Million and NO/100 Dollars ($30,000,000) (the “Term Loan Commitment”). Amounts repaid or prepaid under the Term Loan may not be reborrowed. Bank shall have no obligation to advance funds in excess of the amount of the Term Loan Commitment or to advance the Term Loan after the Closing Date.

2.1.1. Promissory Note. The indebtedness of the Borrower to the Bank under the Term Loan is evidenced by the Note. The original principal amount of the Note will be the amount of the Term Loan Commitment.

2.1.1. Use of Proceeds. Funds advanced under the Term Loan shall be used solely for Borrower’s working capital and other general corporate purposes.

2.1.2. Interest and Principal Payments.

(a) Interest on the outstanding principal amount of the Term Loan shall accrue at a rate equal to the LIBOR Rate. Interest shall be calculated on the basis of the actual number of days elapsed over a year of three hundred sixty (360) days. Notwithstanding anything contained herein to the contrary, all of the provisions contained in Exhibit A attached hereto shall apply to the Term Loan. In the event that there are any inconsistencies between the terms of this Agreement and the terms contained in Exhibit A attached hereto, the terms contained in Exhibit A shall control.

(b) Commencing on the first Interest Payment Date after the date of the Closing Date and on each consecutive Interest Payment Date thereafter until and including the Interest Payment Date in January 2020, a payment shall be made equal to the sum of accrued interest on the outstanding principal balance of the Term Loan. The entire unpaid principal amount of the Term Loan, together with accrued and unpaid interest thereon and all other amounts payable in connection with the Term Loan, shall be due and payable in full on the Maturity Date.

All capitalized terms used in this Section 2.1.3 and not otherwise defined in this Agreement shall have the meanings ascribed to such terms in Exhibit A.

Section 2.2. Late Charge and Default Rate. Notwithstanding the foregoing, if the Borrower fails to make any payment of principal, interest or other amount coming due pursuant to the provisions of this Agreement or the Note within ten (10) calendar days of the date due and payable, the Borrower also shall pay to the Bank a late charge equal to three percent (3.0%) of the amount of such payment (the "Late Charge"). Such ten (10) day period shall not be construed in any way to extend the due date of any such payment. Upon maturity, whether by acceleration, demand or otherwise, and at the Bank's option upon the occurrence of any Event of Default and during the continuance thereof, the Note shall bear interest at a rate that shall be three percentage points (3.0%) in excess of the interest rate in effect from time to time under the Note but not more than the maximum rate allowed by law (the "Default Rate"). The Default Rate shall continue to apply whether or not judgment shall be entered on this Agreement or the Note. Both the Late Charge and the Default Rate are imposed as liquidated damages for the purpose of defraying the Bank's expenses incident to the handling of delinquent payments, but are in addition to, and not in lieu of, the Bank's exercise of any rights and remedies hereunder, under the other Credit Documents or under applicable law, and any fees and expenses of any agents or attorneys which the Bank may employ. In addition, the Default Rate reflects the increased credit risk to the Bank of carrying a loan that is in default. The Borrower agrees that the Late Charge and Default Rate are reasonable forecasts of just compensation for anticipated and actual harm incurred by the Bank, and that the actual harm incurred by the Bank cannot be estimated with certainty and without difficulty.

Section 2.3. Reserved.

Section 2.4. Reserved.

Section 2.5. Prepayment; Mandatory Repayment.

2.5.1. Borrower may prepay the outstanding principal balance under the Term Loan at any time without premium or penalty, provided that Borrower shall comply with the prepayment provisions set forth on Exhibit A attached hereto.

Section 2.6. Payments; Application. All payments of principal, interest, fees and other amounts due hereunder, including any prepayments thereof, shall be made by Borrower to the Bank in immediately available funds before twelve o'clock (12:00) noon on any Business Day at the office of the Bank set forth in Section 9.9 hereof or to such other office or location as the Bank from time to time so notifies Borrower. All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Borrower hereby authorizes the Bank to charge any account maintained by Borrower with the Bank from time to time for all payments of principal, interest, fees and costs when due hereunder. Any and all payments on account of the Term Loan will be applied to accrued and unpaid interest, outstanding principal and other sums due hereunder or under the Credit Documents, in such order as Bank, in its discretion, elects. If Borrower makes a payment or payments and such payment or payments, or any part thereof, are subsequently invalidated, declared to be fraudulent or preferential, set aside or are required to be repaid to a trustee, receiver, or any other person under any bankruptcy act, state, provincial or federal law, common law or equitable cause, then to the extent of such payment or payments, the obligations or part thereof hereunder intended to be satisfied shall be revived and continued in full force and effect as if said payment or payments had not been made.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

Section 3.1. Organization; Good Standing; Qualification. Borrower is a corporation duly formed and validly existing under the laws of the State of Delaware. Each Subsidiary is a corporation, limited liability company, partnership or other entity duly formed and validly existing under the laws of its state of incorporation or organization. Borrower has full power and authority to execute, deliver and comply with the Credit Documents, and each of Borrower and its Subsidiaries has full power and authority to carry on its business as it is now being conducted. Each of Borrower and its Subsidiaries is duly licensed or qualified as a corporation, limited liability company, partnership or other entity in each jurisdiction where the failure to be so qualified would have a Material Adverse Effect.

Section 3.2. Licenses. Each of Borrower and its Subsidiaries has all licenses, registrations, approvals and other authority as may be necessary to enable it to own and operate its business and perform all services and business that it has agreed to perform in any state, municipality or other jurisdiction, and the same are valid, binding and enforceable without any adverse limitations thereon, except where the failure to have any or all such licenses, registrations, approvals or other authority would not have a Material Adverse Effect.

Section 3.3. Reserved.

Section 3.4. Accuracy of Information; Full Disclosure.

3.4.1 All financial statements furnished to Bank concerning the Borrower and its Subsidiaries in accordance with the terms of the Agreement have been prepared in accordance with GAAP and fairly present the financial condition of Borrower and such Subsidiaries as of the dates and for the periods covered, subject, in each case of any unaudited interim financial statements to normal year-end adjustments, and there has been no material adverse change in the financial condition or business of Borrower, its Subsidiaries or such other entities considered as a whole from the date of such statements to the date hereof; and

3.4.2 All financial statements and other documents furnished by Borrower to the Bank in connection with this Agreement do not and will not contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements contained therein not misleading. As of the date of this Agreement, no Material Adverse Effect has occurred or is continuing to occur.

Section 3.5. Pending Litigation or Proceedings. As of the date of this Agreement, there are no judgments outstanding or actions, suits or proceedings pending or, to Borrower's knowledge, threatened against or affecting Borrower or any of its Subsidiaries, at law or in equity or before or by any federal, provincial, state, municipal or other governmental department, commission, board, bureau, court, agency or instrumentality, domestic or foreign, which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

Section 3.6. Due Authorization; No Legal Restrictions. Borrower has the power and authority under the laws of the state of its organization, and under its organizational documents, to enter into and perform this Agreement, the Note, the other Credit Documents and other agreements and documents required hereunder and to which it is a party. The execution and delivery by Borrower of the Credit Documents to which it is a party, the consummation of the transactions contemplated by the Credit Documents and the fulfillment and compliance with the respective terms, conditions and provisions of the Credit Documents: (a) have been duly authorized by all requisite corporate action of Borrower and (b) will not conflict with or result in a breach of, or constitute a default (or might, upon the passage of time or the giving of notice or both, constitute a default) under, any of the terms, conditions or provisions of any statute, law, rule, regulation or ordinance applicable to Borrower or any Subsidiary of Borrower or Borrower's incorporation documents or by-laws, or any material indenture, mortgage, loan or credit agreement or instrument to which Borrower or any Subsidiary of Borrower is a party or by which it may be bound or affected, or any judgment or order of any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, except in the case of clause (b) where such conflict, breach, default or violation would not have a Material Adverse Effect.

Section 3.7. Enforceability. The Credit Documents have been duly executed by Borrower and delivered to Bank and constitute legal, valid and binding obligations of Borrower, enforceable in accordance with their terms.

Section 3.8. Compliance with Laws, Agreements, Other Obligations, Orders or Governmental Regulations. Neither Borrower nor any of its Subsidiaries is in default of its respective formation documents or by-laws or other applicable organizational documents. Neither Borrower has nor any of its Subsidiaries have been declared in default of the performance or observance of any of its obligations, covenants or conditions contained in any material indenture or other agreement creating, evidencing or securing any Indebtedness or pursuant to which any such Indebtedness is issued. Neither Borrower is nor any of its Subsidiaries are in violation of or in default under any other agreement or instrument or any judgment, decree, order, statute, rule or governmental regulation, applicable to it or by which its properties may be bound or affected, except to the extent such violation or default is not reasonably likely to have a Material Adverse Effect.

Section 3.9. Governmental Consents, No Violations of Laws or Agreements. No consent, approval or authorization of or designation, declaration or filing with any governmental authority on the part of Borrower or any Subsidiary of Borrower which has not already been obtained is required in connection with the execution, delivery or performance by Borrower of the Credit Documents or the consummation of the transactions contemplated thereby.

Section 3.10. Taxes. Each of Borrower and its Subsidiaries has filed all material tax returns which it is required to file, if any, and has paid, or made provision for the payment of, all taxes which have or may have become due pursuant to such returns or pursuant to any assessment received by it. Such tax returns are complete and accurate in all material respects.

Section 3.11. Addresses. As of the date of this Agreement, during the past twelve (12) months, Borrower has not been known by any names (including trade names) other than its current name and the chief executive office of Borrower has not been located at any addresses other than the address of Borrower identified in Section 9.9.

Section 3.12. Current Compliance. Borrower is currently in compliance with all of the terms and conditions of the Credit Documents.

Section 3.13. Reserved.

Section 3.14. Intellectual Property. Each of Borrower and its Subsidiaries owns or possesses the right to use all of the material patents, trademarks, service marks, trade names, copyrights, licenses, franchises and permits and rights with respect to the foregoing necessary to own and operate its properties and to carry on its business as presently conducted and presently planned to be conducted without conflict with the rights of others, except for those conflicts that, individually or in the aggregate, would not have a Material Adverse Effect.

Section 3.15. Business Interruptions. Within five (5) years prior to the date hereof, neither the business nor operations of Borrower or any of its Subsidiaries have been materially and adversely affected in any way by any casualty, strike, lockout, combination of workers, order of the United States of America or any state or local government, or any political subdivision or agency thereof, directed against Borrower or any of its Subsidiaries. There are no pending or threatened labor disputes, strikes, lockouts or similar occurrences or grievances against the businesses being operated by Borrower or its Affiliates.

Section 3.16. Accuracy of Representations and Warranties. No representation or warranty by Borrower contained herein or in any certificate or other document furnished by Borrower pursuant hereto or in connection herewith fails to contain any statement of material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made. There is no fact which Borrower knows or should know and has not disclosed to Bank, which does or may materially and adversely affect Borrower or any of its Subsidiaries or any of Borrower's or any of its Subsidiaries' operations.

Section 3.17. Reserved.

Section 3.18. No Extension of Credit for Securities. Neither Borrower nor any of its Subsidiaries is now, nor at any time has it been engaged principally, or as one of its important activities, in the business of extending or arranging for the extension of credit, for the purpose of purchasing or carrying any "margin stock" or "margin securities" within the meaning of Regulations U, G, T or X of the Board of Governors of the Federal Reserve System; nor will the proceeds of the Term Loan be used by Borrower or any of its Subsidiaries directly or indirectly, for such purposes.

Section 3.19. Hazardous Wastes, Substances and Petroleum Products.

3.19.1. Each of Borrower and its Subsidiaries (i) have received all material permits and filed all material notifications required by the Environmental Control Statutes to carry on its respective business(es); and (ii) are in compliance with all Environmental Control Statutes, except where the failure to comply would not, individually or in the aggregate, reasonably be expected to result in a Material Adverse Effect.

3.19.2. Neither Borrower nor any of its Subsidiaries has received written notice that it is potentially responsible for clean-up, remediation, costs of clean-up or remediation, fines or penalties with respect to any actual or imminently threatened Release of Hazardous Substances pursuant to any

Environmental Control Statute, except as would not reasonably be expected to result in a Material Adverse Effect.

Section 3.20. Foreign Assets Control Regulations. Neither the borrowing of the Term Loan by Borrower nor the use of the proceeds thereof by the Borrower or any of its Subsidiaries will violate foreign assets, trade or similar control regulations.

Section 3.21. Investment Company Act. Neither Borrower nor any of its Subsidiaries is directly or indirectly controlled by or acting on behalf of any person which is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

ARTICLE 4
CONDITIONS

Section 4.1. Disbursement of the Term Loan. The obligation of the Bank to make the Term Loan shall be subject to the Bank's receipt of the following documents, each in form and substance satisfactory to the Bank:

4.1.1. Delivery of Credit Documents. The Credit Documents shall have been properly executed, as applicable, and delivered to the Bank.

4.1.1. Organizational and Authorization Documents. Certified copies of the organizational documents of Borrower and resolutions authorizing the execution, delivery and performance of the Credit Documents by Borrower.

4.1.2. Certificates of Good Standing. Certificate of good standing issued by the Delaware Secretary of State for Borrower.

4.1.3. Insurance. Certificates of insurance with respect to all of the Borrower's fire, casualty, liability and other insurance covering its respective property and business required under Section 5.6 hereof.

4.1.4. Beneficial Ownership. If the Borrower qualifies as a "legal entity customer" under the Beneficial Ownership Regulation, Bank shall have received, or had access to, at least three (3) Business Days prior to the Closing Date, a Beneficial Ownership Certification in relation to the Borrower.

4.1.5. Other Documents. The execution and delivery by Borrower to Bank at Borrower's sole cost and expense of any and all documents, agreements and corporate resolutions, as Bank shall reasonably request in connection with the execution and delivery of this Agreement, the Credit Documents or any other documents in connection herewith, each of which shall be in form and content reasonably acceptable to Bank.

4.1.6. Searches. Uniform Commercial Code, tax, judgment, litigation and lien searches against Borrower in those offices and jurisdictions as the Bank shall reasonably request.

4.1.7. Opinion. A legal opinion from Borrower's counsel in form and substance satisfactory to Bank.

4.1.8. Closing Certificate. A certificate, dated as of the effective date of this Agreement, signed by an authorized officer of the Borrower to the effect that (i) no Default or Event of

Default hereunder has occurred and is continuing on such date or after giving effect to this Agreement and the other Credit Documents and the disbursement of the Term Loan occurring on such date and (ii) the representations and warranties of the Borrower contained in this Agreement and the other Credit Documents are true on and as of such date and after giving effect to this Agreement and the other Credit Documents and the disbursement of the Term Loan occurring on such date.

4.1.9. Other Documents. Such additional documents as the Bank reasonably may request, including, but not limited to, the items set forth on the closing checklist delivered by Bank to Borrower.

4.1.10. Upfront Fee; Expenses. The Borrower shall have paid to the Bank an up-front fee of Five Thousand and 00/100 Dollars ($5,000.00) and shall have paid, or reimbursed the Bank for, all fees, costs and expenses of closing the transactions contemplated hereunder and under the other Credit Documents, including the legal and other document preparation costs incurred by Bank.

Section 4.2. Reserved.

Section 4.3. Reserved.

ARTICLE 5
GENERAL COVENANTS

Borrower covenants and agrees that so long as the Term Loan or any Bank Indebtedness is outstanding, Borrower will perform and comply with, and cause each of its Subsidiaries to perform and comply with, the following covenants:

Section 5.1. Payment of Principal, Interest and Other Amounts Due. Borrower will pay when due all Bank Indebtedness and all other amounts payable by it hereunder.

Section 5.2. Merger; Consolidation. Neither Borrower nor any of its Subsidiaries will merge into or consolidate with any Person or permit any Person to merge into or consolidate with it unless (a) Borrower or such Subsidiary is the surviving entity or (b) the surviving Person after such merger or consolidation is a direct or indirect wholly-owned Subsidiary of Borrower; provided, that, with respect to clauses (a) and (b), in the event that Borrower is a constituent party to any such merger or consolidation, the Borrower shall be the surviving entity.

Section 5.3. Taxes; Claims for Labor and Materials. Each of the Borrower and its Subsidiaries will pay or cause to be paid when due all taxes, assessments, governmental charges or levies imposed upon it or its income, profits, payroll or any property belonging to it, including without limitation all withholding taxes, and all claims for labor, materials and supplies which, if unpaid, might become a lien or charge upon any of its properties or assets; provided that Borrower and its Subsidiaries shall not be required to pay any such tax (other than real estate taxes which must be paid regardless of challenge), assessment, charge, levy or claim so long as (a) the validity thereof shall be contested in good faith by appropriate proceedings promptly initiated and diligently conducted by it, and neither execution nor foreclosure sale or similar proceedings shall have been commenced in respect thereof (or such proceedings shall have been stayed pending the disposition of such contest of validity), and it shall have set aside on its books adequate reserves with respect thereto or (b) the nonpayment thereof would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 5.4. Existence; Approvals; Qualification; Business Operations; Compliance with Laws; Notification.

5.4.1. Each of the Borrower and its Subsidiaries (i) will obtain, preserve and keep in full force and effect (A) its separate existence and (B) all rights, licenses, registrations and franchises necessary to the proper conduct of its business or affairs, the absence of which could result in a Material Adverse Effect; (ii) will qualify and remain qualified as a foreign corporation, limited liability company, partnership or other entity in each jurisdiction in which the character or location of the properties owned by it or the business transacted by it requires such qualification; (iii) will not change the nature of its present business substantially as presently conducted; and (iv) will comply with the requirements of all applicable laws and all rules, regulations (including environmental regulations) and orders of regulatory agencies and authorities having jurisdiction over it, except, in the cases of clauses (ii) and (iv), where the lack of such qualification or compliance would not, individually or in the aggregate, have a Material Adverse Effect.

5.4.2. With respect to any Environmental Control Statute, Borrower will promptly notify Bank when, in connection with the conduct of the Borrower's or any of its Subsidiaries' business or operations, any Person (including, without limitation, any United States federal, state or local agency) provides oral or written notification to Borrower or any Subsidiary of Borrower, or Borrower or any Subsidiary of Borrower otherwise becomes aware, of a condition with regard to an actual or imminently threatened Release of Hazardous Substances which could reasonably be expected to have a Material Adverse Effect; and notify Bank in detail promptly upon the receipt by Borrower or any of its Subsidiaries of an assertion of liability under the Environmental Control Statutes, of any actual or alleged failure to comply with, failure to perform, breach, violation or default under (with or without the passage of time) any such statutes or regulations which could reasonably be expected to have a Material Adverse Effect.

Section 5.5. Maintenance of Properties. Each of Borrower and its Subsidiaries will maintain, preserve, protect and keep or cause to be maintained, preserved, protected and kept its real and tangible personal property used or useful in the conduct of its business in good working order and condition, reasonable wear and tear excepted, and will pay and discharge when due the cost of repairs to and maintenance of the same; provided that this Section 5.5 shall not prevent the Borrower or any Subsidiary from discontinuing the operation and the maintenance of any of its properties if such discontinuance is desirable in the conduct of its business and the Borrower has concluded that such discontinuance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 5.6. Insurance. Each of Borrower and its Subsidiaries will maintain insurance with commercially acceptable insurance companies as is customary for similarly situated businesses.

Section 5.7. Inspections; Examinations.

5.7.1. To the extent permitted by applicable law, Borrower authorizes all federal, state and municipal authorities to furnish to Bank copies of reports or examinations relating to Borrower or any of its Subsidiaries, whether made by Borrower or otherwise.

5.7.2. The officers of Bank, or such Persons as any of them may reasonably designate, may visit and inspect any of the properties of Borrower and any of its Subsidiaries, examine (either by Bank's employees or by independent accountants) the books of account of Borrower and any of its Subsidiaries, and discuss the affairs, finances and accounts of Borrower and any of its Subsidiaries with their officers at such times as Bank may reasonably request; provided, however, so long as no Event of Default or Default then exists, Bank shall provide Borrower with twenty four (24) hours prior notice thereof.

Section 5.8. Reserved.

Section 5.9. Change in Control / Change to Organizational Documents. Borrower shall not permit a Change in Control of its ownership or make any amendment to its organizational documents that would have a Material Adverse Effect without the prior written consent of Bank; provided, however, that Bank shall not unreasonably withhold its consent. As used herein, "Change in Control" means any Person or group of Persons within the meaning of § 13(d)(3) of the Securities Exchange Act of 1934, as amended, becoming the beneficial owner, directly or indirectly, of 50% or more of the outstanding equity interests of Borrower.

Section 5.10. Transactions with Affiliates. Neither Borrower nor any of its Subsidiaries will enter into any material transaction or material group of related transactions (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any Affiliate (other than the Borrower or a Subsidiary of the Borrower), except pursuant to the reasonable requirements of the Borrower's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary than would be obtainable in a comparable arm's-length transaction with a Person not an Affiliate; provided that the foregoing restriction shall not apply to the payment or grant of reasonable compensation, benefits and indemnities to any director or officer of the Borrower or any of its Subsidiaries. Notwithstanding the foregoing, nothing in this Section 5.10 shall restrict transactions with any Affiliate that have been approved by or are entered into pursuant to any orders or decisions of any governmental authority having jurisdiction over the Borrower or the applicable Subsidiary.

Section 5.11. Name or Address Change. Borrower shall not change its name or address except upon thirty (30) days prior written notice to Bank and delivery to Bank of any items reasonably requested by Bank to access to Borrower's books and records.

Section 5.12. Notices. Borrower will promptly notify Bank of (a) the occurrence of any Event of Default, (b) the occurrence of a Default, (c) the failure of Borrower to observe any of its undertakings under the Credit Documents, or (d) any Material Adverse Effect. Any notice given pursuant to this section shall not cure or otherwise affect any Event of Default.

Section 5.13. Additional Documents and Future Actions. Borrower will, at its sole cost, take such actions and provide Bank from time to time with such agreements, documents or information as the Bank may in its reasonable discretion deem necessary or advisable to carry out the terms of the Credit Documents.

Section 5.14. Restrictions on Use of Proceeds. Neither Borrower nor any of its Subsidiaries will carry or purchase with the proceeds of the Term Loan any "margin stock" or "margin security" within the meaning of Regulations U, G, T or X of the Board of Governors of the Federal Reserve System.

Section 5.15. Reserved.

ARTICLE 6
FINANCIAL COVENANT

Except as otherwise consented in writing in advance by Bank, Borrower and its Subsidiaries will comply with the following covenant, which, unless otherwise specified, shall be tested using amounts that have been determined in accordance with GAAP:

Section 6.1. Funded Debt / Total Capitalization. The Borrower will maintain at all times a ratio of Funded Debt of the Borrower and its consolidated Subsidiaries to the sum of Funded Debt of the Borrower and its consolidated Subsidiaries plus stockholder's equity of the Borrower and its consolidated Subsidiaries of not more than sixty five percent (65%) (the "Funded Debt to Total Capitalization"), to be tested at the end of each fiscal quarter.

ARTICLE 7
ACCOUNTING RECORDS, REPORTS AND FINANCIAL STATEMENTS

Borrower will maintain books of record and account in which full, correct and current entries in accordance with GAAP will be made of all of its dealings, business and affairs of Borrower and its Subsidiaries and will deliver to Bank the following:

Section 7.1. 10K and Covenant Compliance Certificate. Within fifteen (15) days of filing, the Form 10K of Borrower filed with the Securities and Exchange Commission. Together with the delivery of each Form 10K, Borrower shall provide to Bank a compliance certificate in the form attached hereto as Exhibit B, including a certificate of Borrower's chief financial officer that no Event of Default or Default then exists or if an Event of Default or Default exists, the nature and duration thereof and Borrower's intention with respect thereto.

Section 7.2. 10Q and Covenant Compliance Certificate. Within fifteen (15) days of filing, the Form 10Q of Borrower filed with the Securities and Exchange Commission. Together with the delivery of each Form 10Q, Borrower shall provide to Bank a compliance certificate in the form attached hereto as Exhibit B, including a certificate of Borrower's chief financial officer that no Event of Default or Default then exists or if an Event of Default or Default exists, the nature and duration thereof and Borrower's intention with respect thereto.

Section 7.3. Requested Information. With reasonable promptness, all such other data and information in respect of the condition, operation and affairs of Borrower and its Subsidiaries as Bank may reasonably request from time to time.

ARTICLE 8
DEFAULT

Section 8.1. Events of Default. Each of the following events shall be an Event of Default hereunder:

8.1.1. If Borrower shall fail to pay (i) as and when due any amount of principal hereunder or on the Note, or (ii) any interest, fees, costs, expenses or any other sum payable to the Bank hereunder or otherwise, whether on demand, at the stated maturity or due date thereof, or by reason of any requirement for prepayment thereof, by acceleration or otherwise, within five (5) days of the date when due;

8.1.1. The failure of Borrower to observe the covenants set forth in Article 6 hereof.

8.1.2. The failure of Borrower to duly perform or observe any obligation, covenant or agreement on its or their part contained herein or in any other Credit Document not otherwise specifically constituting an Event of Default under this Section 8.1 and the continuance of such failure for a period of thirty (30) days after the notice from Bank to Borrower, provided that, in the event such failure is incapable of remedy or consists of a default of the financial covenant in Article 6, Borrower shall not be entitled to any notice or grace hereunder;

8.1.3. A breach, default or event of default shall occur at any time under the terms of the Existing Credit Agreement, and such breach, default or event of default either (i) consists of the failure to pay (beyond any period of grace permitted with respect thereto, whether waived or not) any indebtedness under or in connection with the Existing Credit Agreement when due (whether at stated maturity, by acceleration or otherwise) or (ii) causes, or permits the holder or holders of such indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, with the giving of notice if required, such indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such indebtedness to be made, prior to its stated maturity;

8.1.4. The adjudication of Borrower as a “debtor” or insolvent, or the entry of an order for relief against Borrower or the entry of an order appointing a receiver or trustee for Borrower of any of its property or approving a petition seeking reorganization or other similar relief under the bankruptcy or other similar laws of the United States or any state or any other competent jurisdiction;

8.1.5. A proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law is filed by or (unless dismissed within 90 days) against Borrower or Borrower makes an assignment for the benefit of creditors, or Borrower takes any action to authorize any of the foregoing;

8.1.6. The suspension of the operation of Borrower’s present business, or Borrower becoming unable to meet its debts as they mature, or the admission in writing by Borrower to such effect, or Borrower calling any meeting of all or any material portion of its creditors for the purpose of debt restructure;

8.1.7. All or any part of the assets of Borrower that are material to the operation of Borrower’s business are attached, seized, subjected to a writ or distress warrant, or levied upon, or come within the possession or control of any receiver, trustee, custodian or assignee for the benefit of creditors, or any other assets of Borrower are attached, seized, subject to a writ or distress warrant, or levied upon, or come within the possession or control of any receiver, trustee, custodian or assignee for the benefit of creditors and any such action is not, within thirty (30) days after such action is instituted, discharged or stayed pending appeal, or shall not have been discharged within twenty (20) days after the expiration of any such stay;

8.1.8. The entry of final judgment(s) for the payment of money aggregating in excess of $15,000,000 against Borrower which, within twenty (20) days after such entry, shall not have been discharged or execution thereof stayed pending appeal or shall not have been discharged, insured or bonded within five (5) days after the expiration of any such stay;

8.1.9. Any representation or warranty of Borrower in any of the Credit Documents is discovered to be untrue in any material respect or any statement, certificate or data furnished by Borrower pursuant hereto is discovered to be untrue in any material respect as of the date as of which the facts therein set forth are stated or certified;

8.1.10. A Material Adverse Effect occurs in Borrower’s operations or to the financial condition of Borrower;

8.1.11. Borrower voluntarily or involuntarily dissolves or is dissolved, terminates or is terminated;

8.1.12. Borrower is enjoined, restrained, or in any way prevented by the order of any court or any administrative or regulatory agency, the effect of which order restricts Borrower from conducting all or any material part of its business;

8.1.13. Any material uninsured damage to, or loss, theft, or destruction of, any of Borrower's property that has a Material Adverse Effect;

8.1.14. The loss, suspension, revocation or failure to renew any license or permit now held or hereafter acquired by Borrower, which loss, suspension, revocation or failure to renew has a Material Adverse Effect;

8.1.15. The validity or enforceability of this Agreement or any of the Credit Documents is contested by Borrower.

Section 8.2. Remedies Generally. Upon the happening of any Event of Default and at any time during the continuance thereof and by notice by Bank to Borrower (except if an Event of Default described in Subsection 8.1.5 or 8.1.6 shall occur in which case acceleration shall occur automatically without notice), the Bank may declare the entire unpaid balance, principal, interest and fees of all Bank Indebtedness, hereunder or otherwise, to be immediately due and payable. In addition, the Bank may increase the interest rate on the Term Loan to the applicable Default Rate set forth herein, without notice; and the Bank shall have all the rights and remedies granted by any applicable law, all of which shall be cumulative in nature.

Section 8.3. Set-Off. At any time and from time to time following the occurrence and during the continuance of a Default or an Event of Default, Bank may without notice or demand, set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by Bank to or for the credit of Borrower against any or all of the Bank Indebtedness and the Borrower's obligations under the Credit Documents.

ARTICLE 9
MISCELLANEOUS

Section 9.1. Indemnification and Release Provisions; Costs and Expenses. Except to the extent of the gross negligence or willful misconduct on the part of the specific party indemnified hereunder as determined by a court of competent jurisdiction in a final and nonappealable judgment, Borrower hereby indemnifies and agrees to protect, defend and hold harmless Bank and its Affiliates, directors, officers, officials, agents, employees and counsel and their respective heirs, administrators, executors, successors and assigns (each, "Indemnified Person"), from and against, any and all losses, liabilities (including without limitation settlement costs and amounts, transfer taxes, documentary taxes, or assessments or charges made by any governmental authority), claims, damages, interest, judgments, costs, or expenses, including without limitation reasonable fees and disbursements of counsel, incurred by any Indemnified Person or asserted against any Indemnified Person by any Person (including Borrower or any Subsidiary of Borrower) arising out of or in connection with or by reason of this Agreement, the Term Loan or any other Credit Document, including without limitation, any and all losses, liabilities, claims, damages, interests, judgments, costs or expenses relating to or arising under any Environmental Control Statute or the application of any such Statute to Borrower's or any Affiliate's properties or assets. Borrower hereby releases Bank and its respective Affiliates, directors, officers, agents, employees and counsel from any and all claims for loss, damages, costs or expenses caused or alleged to be caused by any act or omission on the part of any of them, except to the extent caused by the gross negligence or willful misconduct of any party to be released hereunder as determined by a court of competent jurisdiction in a final and nonappealable judgment. All obligations provided for in this Section 9.1 shall survive any termination of this Agreement or the Term Loan and the repayment of the Term Loan.

Section 9.2. Certain Fees, Costs, Expenses and Expenditures. Borrower agrees to pay on demand all reasonable costs and expenses of Bank related to the Term Loan, including without limitation:

9.2.1. all reasonable costs and expenses to third parties in connection with the preparation, review, negotiation, execution and delivery of the Credit Documents, and the other documents to be delivered in connection therewith, or any amendments, extensions and increases to any of the foregoing (including, without limitation, reasonable attorney's fees and expenses), and following an Event of Default, the cost of periodic lien searches and tax clearance certificates, as Bank deems advisable; and

9.2.2. all losses, reasonable costs and reasonable expenses in connection with the enforcement, protection and preservation of the Bank's rights or remedies under the Credit Documents, or any other agreement relating to any Bank Indebtedness, or in connection with legal advice relating to the rights or responsibilities of Bank (including without limitation court costs, reasonable attorneys' fees and reasonable expenses of accountants and appraisers).

In the event Borrower shall fail to pay taxes, insurance, assessments, costs or expenses which it is required to pay hereunder, or otherwise breaches any obligations under the Credit Documents, Bank in its discretion, may (but shall not be obligated to) make expenditures for such purposes and the amount so expended (including reasonable attorney's fees and expenses, filing fees and other charges) shall be payable by Borrower on demand and shall constitute part of the Bank Indebtedness.

With respect to any amount required to be paid by Borrower under this Section 9.2, in the event Borrower fail to pay such amount within five (5) days of demand, Borrower shall also pay to Bank interest thereon at the Default Rate. Borrower's obligations under this Section 9.2 shall survive termination of this Agreement.

Section 9.3. Participations and Assignments. Borrower hereby acknowledges and agrees that the Bank may at any time:

9.3.1. at Bank's sole cost and expense, grant participations in all or any portion of the Term Loan or the Note or of its right, title and interest therein or in or to this Agreement to any other lending office or to any other bank, lending institution or other entity; and

9.3.1. assign all or any portion of its rights under the Term Loan; and

9.3.2. pledge or assign its interest in the Term Loan, the Note or any participation interest to any Federal Reserve Bank in accordance with applicable law.

Section 9.4. Binding and Governing Law. This Agreement, the other Credit Documents and all documents executed hereunder shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns (provided that the Borrower may not assign or otherwise transfer any of its rights or obligations under this Agreement or the other Credit Documents without the prior written consent of Bank) and shall be governed as to their validity, interpretation and effect by the laws of the State of New York.

Section 9.5. Survival. All agreements, representations, warranties and covenants of Borrower contained herein or in any documentation required hereunder shall survive the execution of this Agreement and the making of the Term Loan hereunder and except for Section 9.1, which provides otherwise, will continue in full force and effect as long as any indebtedness or other obligation of Borrower to the Bank remains outstanding.

Section 9.6. No Waiver; Delay. If the Bank shall waive any power, right or remedy arising hereunder or under any applicable law, such waiver shall not be deemed to be a waiver of the later occurrence or recurrence of any of said events. No delay by the Bank in the exercise of any power, right or remedy shall, under any circumstances, constitute or be deemed to be a waiver, express or implied, of the same and no course of dealing between the parties hereto shall constitute a waiver of the Bank's powers, rights or remedies. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

Section 9.7. Modification; Waiver. Except as otherwise provided in this Agreement, no modification or amendment hereof, or waiver or consent hereunder, shall be effective unless made in a writing signed by appropriate officers of the parties hereto. Whenever any consent, approval or waiver is requested hereunder, the determination to grant such request shall be in the Bank's sole discretion (unless otherwise indicated).

Section 9.8. Headings. The various headings in this Agreement are inserted for convenience only and shall not affect the meaning or interpretation of this Agreement or any provision hereof.

Section 9.9. Notices. Any notice, request, consent or other communication made, given or required hereunder or in connection herewith shall be deemed satisfactorily given if in writing (including facsimile transmissions) and delivered by hand, mail (registered or certified mail) or overnight courier to the parties at their respective addresses or facsimile number set forth below or such other addresses or facsimile numbers as may be given by any party to the others in writing:

To Borrower:

Chesapeake Utilities Corporation
909 Silver Lake Boulevard
Dover, Delaware 19904
Attention: Beth W. Cooper, Chief Financial Officer
Facsimile No.: 302-734-6750
Telephone No.: 302-734-6022

With a copy to:

[Baker & Hostetler LLP
Key Tower
127 Public Square, Suite 2000
Cleveland, Ohio 44114-1214
Attention: Phillip M. Callesen and Matthew G. Oliver
Facsimile No.: 216-696-0740]

To Bank:

Branch Banking and Trust Company
8200 Greensboro Dr. Suite 1000
McLean, VA 22102
Attention: Matt Davis, Senior Vice President
Facsimile No.: 888-707-3035
Telephone No.: 703-269-1653

Section 9.10. Payment on Non-Business Days. Whenever any payment to be made hereunder shall be stated to be due on a day other than a Business Day, such payment may be made on the next succeeding Business Day, provided however that such extension of time shall be included in the computation of interest due in conjunction with such payment or other fees due hereunder, as the case may be.

Section 9.11. Time of Day. Except as expressly provided otherwise herein, all time of day restrictions imposed herein shall be calculated using the local time in Wilmington, Delaware.

Section 9.12. Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

Section 9.13. Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document, and each such counterpart shall be deemed to be an original.

Section 9.14. Consent to Jurisdiction and Service of Process. Borrower hereby consents to the exclusive jurisdiction of any courts of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and of any appellate court from any thereof, and irrevocably agrees that, subject to the Bank's election, all actions or proceedings relating to the Credit Documents or the transactions contemplated hereunder shall be litigated in such courts, and Borrower waives any objection which it may have based on lack of personal jurisdiction, improper venue or forum non conveniens to the conduct of any proceeding in any such court. Nothing contained in this Section 9.14 shall affect the right of Bank to serve legal process in any other manner permitted by law or affect the right of Bank to bring any action or proceeding against Borrower or its property in the courts of any other jurisdiction.

Section 9.15. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR THE NOTE OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF BANK. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE BANK ENTERING INTO THIS AGREEMENT.

Section 9.16. ADDITIONAL WAIVERS; LIMITATIONS.

9.16.1. IN CONNECTION WITH ANY PROCEEDINGS UNDER THE CREDIT DOCUMENTS, INCLUDING WITHOUT LIMITATION ANY ACTION BY BANK IN REPLEVIN,

FORECLOSURE OR OTHER COURT PROCESS OR IN CONNECTION WITH ANY OTHER ACTION RELATED TO THE CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREUNDER, BORROWER WAIVES:

(a) ALL PROCEDURAL ERRORS, DEFECTS AND IMPERFECTIONS IN SUCH PROCEEDINGS;

(b) ALL BENEFITS UNDER ANY PRESENT OR FUTURE LAWS EXEMPTING ANY PROPERTY, REAL OR PERSONAL, OR ANY PART OF ANY PROCEEDS THEREOF FROM ATTACHMENT, LEVY OR SALE UNDER EXECUTION, OR PROVIDING FOR ANY STAY OF EXECUTION TO BE ISSUED ON ANY JUDGMENT RECOVERED UNDER ANY OF THE CREDIT DOCUMENTS OR IN ANY REPLEVIN OR FORECLOSURE PROCEEDING, OR OTHERWISE PROVIDING FOR ANY VALUATION, APPRAISAL OR EXEMPTION;

(c) PRESENTMENT FOR PAYMENT, DEMAND, NOTICE OF DEMAND, NOTICE OF NON-PAYMENT, PROTEST AND NOTICE OF PROTEST OF ANY OF THE CREDIT DOCUMENTS, INCLUDING THE NOTE; AND

(d) ALL RIGHTS TO CLAIM OR RECOVER REASONABLE ATTORNEY'S FEES AND COSTS IN THE EVENT THAT BORROWER IS SUCCESSFUL IN ANY ACTION TO REMOVE OR SUSPEND A JUDGMENT ENTERED BY CONFESSION.

9.16.2. FORBEARANCE. BANK MAY RELEASE, COMPROMISE, FORBEAR WITH RESPECT TO, WAIVE, SUSPEND, EXTEND OR RENEW ANY OF THE TERMS OF THE CREDIT DOCUMENTS, WITHOUT NOTICE TO BORROWER.

9.16.3. LIMITATION ON LIABILITY. BORROWER SHALL BE RESPONSIBLE FOR AND BANK IS HEREBY RELEASED FROM ANY CLAIM OR LIABILITY IN CONNECTION WITH:

(a) SAFEKEEPING ANY PROPERTY (EXCEPT FOR PROPERTY IN BANK'S POSSESSION);

(b) ANY LOSS OR DAMAGE TO ANY PROPERTY (EXCEPT FOR PROPERTY IN BANK'S POSSESSION);

(c) ANY DIMINUTION IN VALUE OF THE PROPERTY; OR

(d) ANY ACT OR DEFAULT OF ANOTHER PERSON.

BANK SHALL ONLY BE LIABLE FOR ANY ACT OR OMISSION ON ITS PART CONSTITUTING GROSS NEGLIGENCE OR WILLFUL MISCONDUCT AS DETERMINED BY A COURT OF COMPETENT JURISDICTION IN A FINAL AND NONAPPEALABLE JUDGMENT. IN THE EVENT BORROWER BRINGS SUIT AGAINST BANK IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREUNDER AND BANK IS FOUND NOT TO BE LIABLE, BORROWER WILL INDEMNIFY AND HOLD BANK HARMLESS FROM ALL COSTS AND EXPENSES, INCLUDING REASONABLE ATTORNEY FEES AND COSTS, INCURRED BY BANK IN CONNECTION WITH SUCH SUIT. THIS AGREEMENT IS NOT INTENDED TO OBLIGATE BANK TO INCUR EXPENSES OR PERFORM ANY OBLIGATION OR DUTY OF BORROWER.

Section 9.17. ACKNOWLEDGMENTS. BORROWER ACKNOWLEDGES THAT IT HAS HAD THE ASSISTANCE OF COUNSEL IN THE REVIEW AND EXECUTION OF THIS AGREEMENT AND, SPECIFICALLY, SECTION 9.16 HEREOF, AND FURTHER ACKNOWLEDGES THAT THE MEANING AND EFFECT OF THE FOREGOING WAIVER OF JURY TRIAL AND ADDITIONAL WAIVERS HAVE BEEN FULLY EXPLAINED TO BORROWER BY SUCH COUNSEL.

Section 9.18. U.S. Patriot Act/OFAC Notice. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each Person who establishes a formal relationship with such institution. Therefore, when Borrower enters into this business relationship with Bank, Bank will ask Borrower or its officers or owners their name, address, date of birth (for individuals) and other pertinent information that will allow Bank to identify Borrower. Bank may also ask to see Borrower's organizational documents or other identifying information.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned, by their duly authorized officers, have executed and delivered this Term Loan Credit Agreement under seal the day and year first above written.

BORROWER:

ATTEST: CHESAPEAKE UTILITIES CORPORATION
a Delaware corporation

By:____________
Name: Thomas E. Mahn Name: Beth W. Cooper
Title: Treasurer and Vice PresidentTitle: Senior Vice President and Chief Financial Officer

[Signature page 1 of 2 to Term Loan Credit Agreement]

BANK:

ATTEST: BRANCH BANKING AND TRUST COMPANY

By:_____________

Name: Name:
Title: Title:

[Signature page 2 of 2 to Term Loan Credit Agreement]

EXHIBIT A
STANDARD LIBOR LANGUAGE

1. Definitions.

a. **"Applicable Margin"** means seventy five (75) basis points (0.75%).

b. **"Business Day"** means:

(1) any day which is neither a Saturday or Sunday nor a legal holiday on which commercial banks are authorized or required to be closed in Winston-Salem, North Carolina;

(2) when such term is used to describe a day on which a borrowing, payment, prepaying, or repaying is to be made in respect of any LIBOR Rate Loan, any day which is: (i) neither a Saturday or Sunday nor a legal holiday on which commercial banks are authorized or required to be closed in New York City; and (ii) a London Banking Day; and

(3) when such term is used to describe a day on which an interest rate determination is to be made in respect of any LIBOR Rate Loan, any day which is a London Banking Day.

c. "**Hedging Contracts**" means interest rate swap agreements, interest rate cap agreements and interest rate collar agreements, or any other agreements or arrangements entered into between the Borrower and the Bank and designed to protect the Borrower against fluctuations in interest rates or currency exchange rates.

d. **"Hedging Obligations"** means, with respect to the Borrower, all liabilities of the Borrower to the Bank under Hedging Contracts.

e. **"Interest Payment Date"** means the last Business Day of each LIBOR Interest Period.

f. "**LIBOR Interest Period**" is a period of one month, which period shall commence on the first day of each month (provided that the initial LIBOR Interest Period shall commence on the Closing Date) and ending on the date that is immediately prior to the numerically corresponding day of each month thereafter, subject to the terms of this Agreement and shall be determined by Lender in accordance with this Agreement and Lender's loan systems and procedures periodically in effect, including, without limitation, in accordance with the following terms and conditions, as applicable:

(1) Any LIBOR Interest Period which would otherwise end on a day which is not a Business Day shall end on to the next following Business Day unless such day falls in the next calendar month, in which case such LIBOR Interest Period shall end on the first preceding Business Day; and

(2) Any LIBOR Interest Period which begins on a day for which there is no numerically corresponding day in a subsequent month shall end on the last Business Day of each subsequent month.

g. **“LIBOR Rate”** means a rate of interest per annum equal to the sum obtained (rounded upwards, if necessary, to the next higher 1/100th of 1.0%) by adding (i) the One Month LIBOR plus (ii) the Applicable Margin per annum, which shall be adjusted monthly on the first day of each LIBOR Interest Period. The LIBOR Rate shall be adjusted for any change in the LIBOR Reserve Percentage so that Lender shall receive the same yield. The interest rate will in no instance exceed the maximum rate permitted by applicable law. Notwithstanding the foregoing, in no event shall the LIBOR Rate be less than the Applicable Margin.

h. **“LIBOR Rate Loan”** means the Term Loan for the period(s) when the rate of interest applicable thereto is based upon the LIBOR Rate.

i. **“LIBOR Reserve Percentage”** means, relative to any day of any LIBOR Interest Period, the maximum aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements (including all basic, emergency, supplemental, marginal and other reserves and taking into account any transitional adjustments or other scheduled changes in reserve requirements) under any regulations of the Board of Governors of the Federal Reserve System (the “Board”) or other governmental authority having jurisdiction with respect thereto as issued from time to time and then applicable to assets or liabilities consisting of “Eurocurrency Liabilities”, as currently defined in Regulation D of the Board, having a term approximately equal or comparable to such LIBOR Interest Period.

j. **“London Banking Day”** means a day on which dealings in US dollar deposits are transacted in the London interbank market.

k. “**One Month LIBOR**” means the average quoted by Bloomberg Finance L.P., or any quoting service or commonly available source utilized by the Lender, on the determination date for deposits in U. S. Dollars offered in the London interbank market for one month determined at approximately 11:00 am London time two (2) Business Days prior to the commencement of the applicable LIBOR Interest Period; provided that if the above method for determining one month LIBOR shall not be available, the rate quoted in ***The Wall Street Journal***, or a rate determined by a substitute method of determination agreed on by Borrower and Bank; and provided further that if One Month LIBOR determined as provided above would be less than zero percent (0%) then One Month LIBOR shall be deemed to be zero percent (0%).

l. **“Prime Rate”** means the annual interest rate publicly announced by Bank from time to time as its prime rate. The Prime Rate is determined from time to time by Bank as a means of pricing some loans to its borrowers. The Prime Rate is not tied to any external rate of interest or index, and does not necessarily reflect the lowest rate of interest actually charged by Bank to any particular class or category of customers. If and when the Prime Rate changes, the rate of interest with respect to any amounts hereunder to which the Prime Rate applies will change automatically without notice to Borrower, effective on the date of any such change.

m. **“Prime Rate Loan”** means the Term Loan for the period(s) when the rate of interest applicable to such Loan is calculated by reference to the Prime Rate.

n. **“Prime Rate Margin”** means zero (0) basis points (0.00%) per annum.

2. **Reserved.**

3. **Repayment, Prepayments and Interest**.

a. **<u>Reserved</u>.**

b. **Interest Provisions**. Interest on the outstanding principal amount of the Term Loan, when classified as a: (i) LIBOR Rate Loan, shall accrue during each LIBOR Interest Period at a rate per annum equal to the sum of the LIBOR Rate for such LIBOR Interest Period, and be due and payable on each Interest Payment Date and on the Maturity Date, and (ii) Prime Rate Loan, shall accrue at a rate per annum equal to the sum of the Prime Rate plus the Prime Rate Margin, and be due and payable on each Interest Payment Date and on the Maturity Date. The Bank shall determine each interest rate applicable to the Term Loan in accordance with the terms of this Agreement, and its determination thereof shall be conclusive in the absence of manifest error.

c. **Voluntary Prepayment of LIBOR Rate Loans**. A LIBOR Rate Loan may be prepaid upon the terms and conditions set forth herein. For a LIBOR Rate Loan in connection with which the Borrower has or may incur Hedging Obligations, additional obligations may be associated with prepayment, in accordance with the terms and conditions of the applicable Hedging Contracts. The Borrower shall give the Bank, no later than 10:00 a.m., New York City time, at least four (4) Business Days notice of any proposed prepayment of a LIBOR Rate Loan, specifying the proposed date of payment of such LIBOR Rate Loan, and the principal amount to be paid. Each partial prepayment of the principal amount of a LIBOR Rate Loan shall be in an integral multiple of $10,000 and accompanied by the payment of all charges outstanding on such LIBOR Rate Loan (including the LIBOR Breakage Fee) and of all accrued interest on the principal repaid to the date of payment.

d. **LIBOR Breakage Fees**. Upon any prepayment of a LIBOR Rate Loan on any day that is not the last day of the relevant LIBOR Interest Period (regardless of the source of such prepayment and whether voluntary, by acceleration or otherwise), the Borrower shall pay an amount ("<u>LIBOR Breakage Fee</u>"), as calculated by the Bank, equal to the amount of any losses, expenses and liabilities (including without limitation any loss of margin and anticipated profits) that Bank may sustain as a result of such payment. The Borrower understands, agrees and acknowledges that: (i) the Bank does not have any obligation to purchase, sell and/or match funds in connection with the use of One Month LIBOR as a basis for calculating the rate of interest on a LIBOR Rate Loan, (ii) One Month LIBOR may be used merely as a reference in determining such rate, and (iii) the Borrower has accepted One Month LIBOR as a reasonable and fair basis for calculating the LIBOR Breakage Fee and other funding losses incurred by the Bank. Borrower further agrees to pay the LIBOR Breakage Fee and other funding losses, if any, whether or not the Bank elects to purchase, sell and/or match funds.

4. **<u>Miscellaneous LIBOR Rate Loan Terms</u>.**

a. **LIBOR Rate Lending Unlawful**. If the Bank shall determine (which determination shall, upon notice thereof to the Borrower, be conclusive and binding on the Borrower) that the introduction of or any change in or in the interpretation of any law, rule, regulation or guideline, (whether or not having the force of law) makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for the Bank to make, continue or maintain the Term Loan as a LIBOR Rate Loan, the obligations of the Bank to make, continue or maintain the Term Loan as a LIBOR Rate Loan shall, upon such determination, forthwith be suspended until the Bank shall notify the Borrower that the circumstances causing such suspension no longer exist, and all the Term Loan shall automatically convert into a Prime Rate Loan at the end of the then current LIBOR Interest Period or sooner, if required by such law or assertion.

b. **Unavailability of LIBOR Rate**. In the event that the Bank, in its sole discretion, shall have determined that U.S. dollar deposits in the relevant amount and for any LIBOR Interest Period are not available to the Bank in the London interbank market; or by reason of circumstances affecting the Bank in the London interbank market, adequate and reasonable means do not exist for ascertaining One Month LIBOR applicable to the relevant LIBOR Interest Period; or One Month LIBOR no longer adequately and fairly reflects the Bank's cost of funding loans; upon notice from the Bank to the Borrower, the obligations of the Bank hereunder and under this Agreement to make or continue the Term Loan as a LIBOR Rate Loan shall forthwith be suspended until the Bank shall notify the Borrower that the circumstances causing such suspension no longer exist, and the Term Loan shall automatically convert into a Prime Rate Loan at the end of the then current LIBOR Interest Period or sooner, if required by such law or assertion.

c. **Increased Costs**. If, on or after the date hereof, the adoption of any applicable law, rule or regulation or guideline (whether or not having the force of law), or any change therein, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (a) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System of the United States) against assets of, deposits with or for the account of, or credit extended by, the Bank or shall impose on the Bank or on the London interbank market any other condition affecting loans based on One Month LIBOR or its obligation to make loans based on One Month LIBOR; or (b) shall impose on the Bank any other condition affecting its loans based on One Month LIBOR or its obligation to make or maintain loans based on One Month LIBOR (a "Change in Law"), and the result of any of the foregoing is to increase the cost to the Bank of making or maintaining the Term Loan as a LIBOR Rate Loan hereunder, or to reduce the amount of any sum received or receivable by the Bank under this Agreement with respect thereto, by an amount deemed by the Bank to be material, then, the Borrower shall pay to the Bank, in accordance with terms herein, such additional amount or amounts as will compensate the Bank for such increased cost or reduction.

d. **Increased Capital Costs**. If any change in, or the introduction, adoption, effectiveness, interpretation, reinterpretation or phase-in of, any law or regulation, directive, guideline, decision or request (whether or not having the force of law) of any court, central bank, regulator or other governmental authority affects or would affect the amount of capital required to be maintained by the Bank, or person controlling the Bank (a "Change in Capital Law"), and the Bank determines that the rate of return on its or such controlling person's capital as a consequence of its commitments hereunder or the loans made by the Bank under this Agreement is reduced to a level below that which the Bank or such controlling person could have achieved but for the occurrence of such Change in Capital Law, then, in any such case upon notice from time to time by the Bank to the Borrower, the Borrower shall promptly pay directly to the Bank additional amounts sufficient to compensate the Bank or such controlling person for such reduction in rate of return.

e. **Procedures for Payment of Increased Costs**.

(1) A certificate of the Bank as to any additional amount or amounts (including calculations thereof in reasonable detail) to compensate the Bank, as specified in Section 4(c) or 4(d), shall be delivered to the Borrower and shall, in the absence of manifest error, be conclusive and binding on the Borrower. In determining such amount, the Bank may use any method of averaging and attribution that it (in good faith, but in its sole and absolute discretion) shall deem applicable. The Borrower shall pay the Bank the amount shown as due on any such certificate within fifteen (15) days after receipt thereof.

(2) Failure or delay on the part of the Bank to demand compensation pursuant to the foregoing provisions of Section 4(c) or 4(d) shall not constitute a waiver of the Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate the Bank pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than three (3) months prior to the date that the Bank notifies the Borrower of the Change in Law or the Change in Capital Law giving rise to such increased costs or reductions and of the Bank's intention to claim compensation therefor (except that, if the Change in Law or the Change in Capital Law giving rise to such increased costs or reductions is retroactive, then the three (3) month period referred to above shall be extended to include the period of retroactive effect thereof).

f. **Taxes**. All payments by the Borrower of principal of, and interest on, the Term Loan and all other amounts payable under the Credit Documents shall be made free and clear of and without deduction for any present or future income, excise, stamp or franchise taxes and other taxes, fees, duties, withholdings or other charges of any nature whatsoever imposed by any taxing authority, but excluding franchise taxes and taxes imposed on or measured by the Bank's net income or receipts (such non-excluded items being called "Taxes"). In the event that any withholding or deduction from any payment to be made by the Borrower hereunder is required in respect of any Taxes pursuant to any applicable law, rule or regulation, then the Borrower will:

(1) pay directly to the relevant authority the full amount required to be so withheld or deducted;

(2) promptly forward to the Bank an official receipt or other documentation satisfactory to the Bank evidencing such payment to such authority; and

(3) pay to the Bank such additional amount or amounts as is necessary to ensure that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section 4(f)) the net amount actually received by the Bank will equal the full amount the Bank would have received had no such withholding or deduction been required.

Moreover, if any Taxes are directly asserted against the Bank with respect to any payment received by the Bank hereunder, the Bank may pay such Taxes and the Borrower will promptly pay such additional amount (including any penalties, interest or expenses) as is necessary in order that the net amount received by the Bank after the payment of such Taxes (including any Taxes on such additional amount) shall equal the amount the Bank would have received had not such Taxes been asserted.

If the Borrower fails to pay any Taxes when due to the appropriate taxing authority or fails to remit to the Bank the required receipts or other required documentary evidence, the Borrower shall indemnify the Bank for any incremental Taxes, interest or penalties that may become payable by the Bank as a result of any such failure.

EXHIBIT B

Compliance Certificate

(INSERT DATE)

Branch Banking and Trust Company
8200 Greensboro Dr. Suite 1000
McLean, VA 22102
Attention: Matt Davis, Senior Vice President
Facsimile No.: 888-707-3035
Telephone No.: 703-269-1653

I, _________, _____(Title)_____, do hereby certify on behalf of Chesapeake Utilities Corporation ("Borrower") as of the quarter ended _____ (the "Report Date"), as follows:

1.) Funded Debt to Total Capitalization. The Funded Debt to Total Capitalization (as defined in the Term Loan Credit Agreement) is ________________, which is in compliance with the required maximum Funded Debt to Total Capitalization of 65% for the test period end date of _____________________.

2.) The representations and warranties of the Borrower contained in the Term Loan Credit Agreement and in the other Credit Documents (as defined in the Term Loan Credit Agreement) are true on and as of this date with the same effect as though such representations and warranties have been made on and as of the date hereof and the Borrower has performed and complied in all respects with all covenants and conditions thereof.

3.) [No event has occurred and is continuing or exists as of the date hereof, which constitutes a Default or an Event of Default (as each term is defined in the Term Loan Credit Agreement)]

IN WITNESS WHEREOF, the undersigned has executed this Certificate on this _____ day of _____________________, 20_____.

By: ___________

Name:

Title:

TERM LOAN PROMISSORY NOTE

$30,000,000.00 January ___, 2019

FOR VALUE RECEIVED, the undersigned, **CHESAPEAKE UTILITIES CORPORATION**, a Delaware corporation, with offices at 909 Silver Lake Boulevard, Dover, Delaware 19904 (**"Borrower"**), promises to pay to the order of **BRANCH BANKING AND TRUST COMPANY**, a North Carolina banking corporation at the office designated below (**"Bank"**), the principal sum of **THIRTY MILLION DOLLARS** (**$30,000,000.00**) in (i) installments of interest from the date hereof on the principal amount thereof from time to time outstanding, in like funds, on each Interest Payment Date at the Interest Rate per annum applicable to the Term Loan as provided in the Term Loan Credit Agreement, dated of even date herewith, by and between Borrower and Bank (as amended, modified, or supplemented from time to time, the **"Credit Agreement"**), and (ii) a final payment of the outstanding principal balance of this Term Loan Promissory Note, together with accrued interest thereon, at the Interest Rate per annum applicable to the Term Loan as provided in the Credit Agreement, on the Maturity Date. All such principal and interest shall be payable in lawful money of the United States of America in immediately available funds at the offices of Bank, at 200 West Second Street, 17th Floor, Winston-Salem, North Carolina 27101 or such other address as Bank may, from time to time, notify Borrower.

This Term Loan Promissory Note is defined in the Credit Agreement as the "Note." Reference is made to the Credit Agreement for a statement of the respective rights and obligations of the parties and the terms and conditions therein provided, under which all or any part of the principal hereof, accrued interest thereon, and other amounts payable under the Credit Agreement may become immediately due and payable. Capitalized terms used but not otherwise defined herein shall have the respective meanings given to them in the Credit Agreement.

This is a term loan pursuant to which Borrower may not re-borrow amounts previously repaid pursuant to the terms and conditions of this Term Loan Promissory Note and the Credit Agreement.

All borrowings evidenced by this Term Loan Promissory Note and all payments and prepayments of the principal hereof and the date thereof shall be recorded by the holder hereof in its internal records; *provided,* that the failure of the holder hereof to make such a notation or any error in such notation shall not affect the obligations of the Borrower to make the payments of principal and interest in accordance with the terms of this Term Loan Promissory Note and the Credit Agreement. Should a conflict arise between this Term Loan Promissory Note and the Credit Agreement, the terms of the Credit Agreement shall control.

Interest shall accrue on the outstanding principal balance hereof at the rate or rates provided for in the Credit Agreement.

The occurrence of an Event of Default under the Credit Agreement constitutes an Event of Default under this Term Loan Promissory Note and entitles Bank, in accordance with the Credit Agreement, to declare this Term Loan Promissory Note immediately due and payable.

Borrower hereby waives presentment, demand for payment, notice of dishonor or acceleration, protest and notice of protest, and any and all other notices or demands of any kind in connection with the delivery, acceptance, performance, default or enforcement of this Term Loan Promissory Note, except any notice requirements set forth in the Credit Agreement.

This Term Loan Promissory Note shall be binding upon Borrower and its successors and assigns and shall inure to the benefit of Bank and its successors and assigns. This Term Loan Promissory Note shall be governed as to validity, interpretation and effect by the laws of the State of New York.

In the event any interest rate applicable hereto is in excess of the highest rate allowable under applicable law, then the rate of such interest will be reduced to the highest rate not in excess of such maximum allowable interest and any excess previously paid by Borrower shall be deemed to have been applied against the principal outstanding under the Credit Agreement.

Borrower shall also be liable hereunder for all fees, costs and expenses as provided in the Credit Agreement.

BORROWER AND BANK AGREE THAT THEY SHALL NOT HAVE A REMEDY OF PUNITIVE OR EXEMPLARY DAMAGES AGAINST THE OTHER IN ANY DISPUTE IN CONNECTION WITH THIS TERM LOAN PROMISSORY NOTE AND HEREBY WAIVE ANY RIGHT OR CLAIM TO PUNITIVE OR EXEMPLARY DAMAGES THEY HAVE NOW OR WHICH MAY ARISE IN THE FUTURE IN CONNECTION WITH ANY DISPUTE IN CONNECTION WITH THIS TERM LOAN PROMISSORY NOTE.

EACH OF THE PARTIES HERETO HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVES ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS TERM LOAN PROMISSORY NOTE OR ANY COURSE OF CONDUCT, COURSE OF DEALING,

STATEMENTS (WHETHER ORAL OR WRITTEN) OR ACTIONS OF BANK. THIS PROVISION IS A MATERIAL INDUCEMENT FOR BANK'S ACCEPTING THIS TERM LOAN PROMISSORY NOTE.

BORROWER HEREBY IRREVOCABLY AUTHORIZES AND EMPOWERS ANY ATTORNEY OR ATTORNEYS OR THE PROTHONOTARY OR CLERK OF ANY COURT IN THE STATE OF NEW YORK, OR ELSEWHERE, UPON AND FOLLOWING THE OCCURRENCE OF AN EVENT OF DEFAULT, TO APPEAR FOR AND CONFESS JUDGMENT AGAINST BORROWER FOR THE AMOUNT FOR WHICH BORROWER MAY BE OR BECOME LIABLE TO BANK OR ANY OF THEM UNDER THIS TERM LOAN PROMISSORY NOTE AS EVIDENCED BY AN AFFIDAVIT SIGNED BY AN OFFICER OF BANK, AS THE CASE MAY BE, SETTING FORTH THE AMOUNT THEN DUE, PLUS REASONABLE ATTORNEYS' FEES OF UP TO TEN PERCENT (10%) OF PRINCIPAL AND INTEREST AND COSTS OF SUIT (PROVIDED, HOWEVER, BANK WILL SEEK TO COLLECT ONLY SUCH REASONABLE FEES AS IT ACTUALLY INCURS FROM TIME TO TIME), AND FOR SO DOING THIS TERM LOAN PROMISSORY NOTE OR A COPY HEREOF VERIFIED BY AFFIDAVIT SHALL BE SUFFICIENT WARRANT, IT BEING AGREED THAT THE FOREGOING AUTHORIZATION IS A POWER COUPLED WITH AN INTEREST. BORROWER WAIVES THE RIGHT TO ANY STAY OF EXECUTION AND THE BENEFIT OF ALL EXEMPTION LAWS NOW OR HEREAFTER IN EFFECT. NO SINGLE EXERCISE OF THE FOREGOING WARRANT AND POWER TO CONFESS JUDGMENT SHALL BE DEEMED TO EXHAUST THE POWER, WHETHER OR NOT ANY SUCH EXERCISE SHALL BE HELD TO BE INVALID, VOIDABLE OR VOID, BUT THE POWER SHALL CONTINUE UNDIMINISHED AND MAY BE EXERCISED FROM TIME TO TIME AS OFTEN AS BANK SHALL ELECT UNTIL ALL OBLIGATIONS OF BORROWER TO BANK HAVE BEEN PAID IN FULL.

BORROWER ACKNOWLEDGES THAT IT HAS HAD THE ASSISTANCE OF COUNSEL IN THE REVIEW AND EXECUTION OF THIS TERM LOAN PROMISSORY NOTE, AND FURTHER ACKNOWLEDGES THAT THE MEANING AND EFFECT OF THE FOREGOING WAIVER OF JURY TRIAL AND CONFESSION OF JUDGMENT HAVE BEEN FULLY EXPLAINED TO BORROWER BY SUCH COUNSEL.

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Borrower acknowledges that it has read and understood all the provisions of this Term Loan Promissory Note, including the waiver of jury trial, and has been advised by counsel as necessary or appropriate.
WITNESS the due execution hereof as a document under seal, as of the date first written above, with the intent to be legally bound hereby.

ATTEST: CHESAPEAKE UTILITIES CORPORATION
a Delaware corporation

By:____________________________ By:________________________________(SEAL)
Name: Thomas E. Mahn Name: Beth W. Cooper
Title: Treasurer and Vice President Title: Senior Vice President and Chief Financial Officer

[Signature Page to Term Loan Promissory Note]

EXHIBIT 31.1

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Jeffry M. Householder, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2019 of Chesapeake Utilities Corporation;

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

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

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

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

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

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

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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

5. 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: May 8, 2019

/s/ JEFFRY M. HOUSEHOLDER

Jeffry M. Householder
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATE PURSUANT TO RULE 13A-14(A)
UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Beth W. Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended March 31, 2019 of Chesapeake Utilities Corporation;

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

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

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

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

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

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

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (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

5. 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: May 8, 2019

/S/ BETH W. COOPER

Beth W. Cooper
Executive Vice President, Chief Financial Officer, and
Assistant Corporate Secretary

EXHIBIT 32.1

Certificate of Chief Executive Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, Jeffry M. Householder, President and Chief Executive Officer of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended March 31, 2019, 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/ JEFFRY M. HOUSEHOLDER

Jeffry M. Householder

May 8, 2019

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

EXHIBIT 32.2

Certificate of Chief Financial Officer

of

Chesapeake Utilities Corporation

(pursuant to 18 U.S.C. Section 1350)

I, Beth W. Cooper, Executive Vice President, Chief Financial Officer and Assistant Corporate Secretary of Chesapeake Utilities Corporation, certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Chesapeake Utilities Corporation ("Chesapeake") for the period ended March 31, 2019, 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

May 8, 2019

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.