LSB INDUSTRIES INC
Form 10-Q
May 08, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2015

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 1-7677

LSB Industries, Inc.

Exact name of Registrant as specified in its charter

Delaware	**73-1015226**
State or other jurisdiction of incorporation or organization	**I.R.S. Employer Identification No.**

16 South Pennsylvania Avenue,

Oklahoma City, Oklahoma 73107

Address of principal executive offices Zip Code

(405) 235-4546

Registrant s telephone number, including area code

None

Former name, former address and former fiscal year, if

changed since last report.

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The number of shares outstanding of the Registrant s voting common stock, as of April 30, 2015 was 22,733,357 shares, excluding 4,320,462 shares held as treasury stock.

FORM 10-Q OF LSB INDUSTRIES, INC.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

LSB INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Information at March 31, 2015 is unaudited)

	March 31, 2015	December 31, 2014
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	$ 161,558	$ 186,811
Restricted cash and cash equivalents	396	365
Short-term investments	24,500	14,500
Accounts receivable, net	90,402	88,074
Inventories:		
Finished goods	27,558	28,218
Work in progress	3,061	2,763
Raw materials	29,077	25,605
Total inventories	59,696	56,586
Supplies, prepaid items and other:		
Prepaid insurance	10,008	13,752
Precious metals	11,541	12,838
Supplies	16,430	15,927
Prepaid and refundable income taxes	2,754	7,387
Other	5,237	5,438
Total supplies, prepaid items and other	45,970	55,342
Deferred income taxes	16,934	17,204
Total current assets	399,456	418,882
Property, plant and equipment, net	687,047	619,205
Other assets:		
Noncurrent restricted cash and cash equivalents		45,969
Noncurrent restricted investments	25,000	25,000
Other, net	29,066	27,949

Total other assets	54,066	98,918
	$ 1,140,569	$ 1,137,005

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LSB INDUSTRIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

(Information at March 31, 2015 is unaudited)

	March 31, 2015	December 31, 2014
	(In Thousands)	
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$ 92,544	$ 81,456
Short-term financing	8,389	11,955
Accrued and other liabilities	37,696	51,166
Current portion of long-term debt	25,499	10,680
Total current liabilities	164,128	155,257
Long-term debt	430,237	446,638
Noncurrent accrued and other liabilities	18,234	17,934
Deferred income taxes	86,034	83,128
Commitments and contingencies (Note 9)		
Stockholders equity:		
Series B 12% cumulative, convertible preferred stock, $100 par value; 20,000 shares issued and outstanding	2,000	2,000
Series D 6% cumulative, convertible Class C preferred stock, no par value; 1,000,000 shares issued and outstanding	1,000	1,000
Common stock, $.10 par value; 75,000,000 shares authorized, 27,044,903 shares issued (26,968,212 shares at December 31, 2014)	2,704	2,697
Capital in excess of par value	172,069	170,537
Retained earnings	292,537	286,188
	470,310	462,422
Less treasury stock, at cost:		
Common stock, 4,320,462 shares	28,374	28,374
Total stockholders equity	441,936	434,048
	$ 1,140,569	$ 1,137,005

See accompanying notes.

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LSB INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

Three Months Ended March 31, 2015 and 2014

	2015	2014
	(In Thousands, Except Per Share Amounts)	
Net sales	$ 193,858	$ 178,525
Cost of sales	151,499	129,803
Gross profit	42,359	48,722
Selling, general and administrative expense	28,191	27,658
Provision for (recovery of) losses on accounts receivable	22	(159)
Property insurance recoveries in excess of losses incurred		(5,147)
Other expense (income), net	(77)	509
Operating income	14,223	25,861
Interest expense, net	3,398	6,708
Non-operating other income, net	(35)	(77)
Income from continuing operations before provisions for income taxes and equity in earnings of affiliate	10,860	19,230
Provisions for income taxes	4,181	7,654
Equity in earnings of affiliate		(67)
Income from continuing operations	6,679	11,643
Net loss from discontinued operations	30	2
Net income	6,649	11,641
Dividends on preferred stocks	300	300
Net income applicable to common stock	$ 6,349	$ 11,341
Weighted-average common shares:		
Basic	22,675	22,533
Diluted	23,047	23,640
Income per common share:		
Basic	$ 0.28	$ 0.50

Diluted	$	0.28	$	0.49

See accompanying notes.

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LSB INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Unaudited)

Three Months Ended March 31, 2015

	Common Stock Shares	Non-Redeemable Preferred Stock	Common Stock Par Value	Capital in Excess of Par Value	Retained Earnings	Treasury Stock-Common	Total
				(In Thousands)			
Balance at December 31, 2014	26,968	$ 3,000	$ 2,697	$ 170,537	$ 286,188	$ (28,374)	$ 434,048
Net income					6,649		6,649
Dividends paid on preferred stocks					(300)		(300)
Stock-based compensation				619			619
Exercise of stock options	75		7	735			742
Common stock issued for services	2			49			49
Excess income tax benefit associated with stock-based compensation				129			129
Balance at March 31, 2015	27,045	$ 3,000	$ 2,704	$ 172,069	$ 292,537	$ (28,374)	$ 441,936

See accompanying notes.

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LSB INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

Three Months Ended March 31, 2015

	2015	2014
	(In Thousands)	
Cash flows from continuing operating activities		
Net income	$ 6,649	$ 11,641
Adjustments to reconcile net income to net cash provided by continuing operating activities:		
Deferred income taxes	3,176	5,999
Gains on property insurance recoveries associated with property, plant and equipment		(5,147)
Depreciation, depletion and amortization of property, plant and equipment	9,001	8,679
Other	(795)	(111)
Cash provided (used) by changes in assets and liabilities (net of effects of discontinued operations):		
Accounts receivable	(2,348)	(9,876)
Inventories	(1,477)	150
Prepaid insurance	3,744	3,772
Prepaid and accrued income taxes	4,640	8,247
Other supplies, prepaid items and other	932	3,540
Accounts payable	1,629	8,179
Accrued interest	(8,086)	(7,547)
Customer deposits	(3,003)	(322)
Other current and noncurrent liabilities	(1,459)	(5,515)
Deferred gain on insurance recoveries		(1,383)
Net cash provided by continuing operating activities	12,603	20,306
Cash flows from continuing investing activities		
Expenditures for property, plant and equipment	(66,837)	(45,308)
Proceeds from property insurance recovery associated with property, plant and equipment		5,147
Purchases of short-term investments	(10,000)	
Proceeds from noncurrent restricted cash and cash equivalents	45,969	
Deposits of current and noncurrent restricted cash and cash equivalents	(31)	(165,106)
Proceeds from noncurrent restricted investments		209,990
Other investing activities	(1,049)	386
Net cash provided (used) by continuing investing activities	(31,948)	5,109
Cash flows from continuing financing activities		
Payments on long-term debt	(2,881)	(2,322)
Payments on short-term financing	(3,566)	(4,073)

Proceeds from exercises of stock options	742	78
Excess income tax benefit associated with stock-based compensation	129	300
Dividends paid on preferred stocks	(300)	(300)
Net cash used by continuing financing activities	(5,876)	(6,317)
Cash flows of discontinued operations:		
Operating cash flows	(32)	(65)
Net increase (decrease) in cash and cash equivalents	(25,253)	19,033
Cash and cash equivalents at beginning of period	186,811	143,750
Cash and cash equivalents at end of period	$ 161,558	$ 162,783

See accompanying notes.

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LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Summary of Significant Accounting Policies

For a complete discussion of our significant accounting policies, refer to the notes to our audited consolidated financial statements included in our Form 10-K for the year ended December 31, 2014 (2014 Form 10-K), filed with the Securities and Exchange Commission (SEC) on February 27, 2015.

Basis of Consolidation and Presentation - LSB Industries, Inc. (LSB) and its subsidiaries (the Company , We , Us , Our) are consolidated in the accompanying condensed consolidated financial statements. We are involved in manufacturing and marketing operations. We are primarily engaged in the manufacture and sale of chemical products (the Chemical Business) and the manufacture and sale of water source and geothermal heat pumps and air handling products (the Climate Control Business). LSB is a holding company with no significant operations or assets other than cash, cash equivalents, and investments in its subsidiaries. Our Chemical Business ownership of working interests in natural gas properties is accounted for as an undivided interest, whereby we reflect our proportionate share of the underlying assets, liabilities, revenues and expenses. Our working interest represents our share of the costs and expenses incurred primarily to develop the underlying leaseholds and to produce natural gas while our net revenue interest represents our share of the revenues from the sale of natural gas. The net revenue interest is less than our working interest as the result of royalty interest due to others. We are not the operator of these natural gas properties. Entities that are 20% to 50% owned and for which we have significant influence are accounted for on the equity method. All material intercompany accounts and transactions have been eliminated.

In the opinion of management, the unaudited condensed consolidated financial statements of the Company as of March 31, 2015 and for the three-month periods ended March 31, 2015 and 2014 include all adjustments and accruals, consisting of normal, recurring accrual adjustments which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year due, in part, to the seasonality of our sales of agricultural products and the timing of performing our major plant maintenance activities. Our selling seasons for agricultural products are primarily during the spring and fall planting seasons, which typically extend from March through June and from September through November.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States (U.S.) generally accepted accounting principles (GAAP) have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the SEC. These condensed consolidated financial statements should be read in connection with our audited consolidated financial statements and notes thereto included in our 2014 Form 10-K.

Use of Estimates - The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents Investments, which consist of highly liquid investments with original maturities of three months or less, are considered cash equivalents.

Short-Term Investments - Investments, which consist of certificates of deposit with an original maturity no more than 26 weeks, are considered short-term investments. These investments are carried at cost which approximates fair value.

Noncurrent Restricted Cash and Cash Equivalents - Noncurrent restricted cash and cash equivalents consisted of balances that were designated by us for specific purposes relating to capital projects.

Noncurrent Restricted Investments - Noncurrent restricted investments consist of investment balances that are designated by us for specific purposes relating to capital projects. The balance includes investments in certificates of deposits with an original maturity no longer than approximately 26 weeks. The investments in certificates of deposits are carried at cost, which approximates fair value.

Concentration of Credit Risks for Cash, Cash Equivalents, and Investments at Financial Institutions Financial instruments relating to cash, cash equivalents, and investments (certificates of deposits) potentially subject us to concentrations of credit risk. At March 31, 2015, the total balance of these financial instruments exceeded the FDIC-insured limits by approximately $49.0 million. All of these financial instruments were held by financial institutions within the U.S.

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LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 1: Summary of Significant Accounting Policies (continued)

Recognition of Insurance Recoveries - If an insurance claim relates to a recovery of our losses, we recognize the recovery when it is probable and reasonably estimable. If our insurance claim relates to a contingent gain, we recognize the recovery when it is realized or realizable and earned. Amounts recoverable from our insurance carriers, if any, are included in accounts receivable. An insurance recovery in excess of recoverable costs relating to a business interruption claim, if any, is a reduction to cost of sales. An insurance recovery in excess of recoverable costs relating to a property insurance claim, if any, is included in property insurance recoveries in excess of losses incurred.

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board issued Accounting Standard Update 2014-09-Revenue from Contracts with Customers, which will supersede nearly all existing revenue recognition guidance under GAAP. The standard s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We are evaluating our existing revenue recognition policies to determine whether any contracts in the scope of the guidance will be affected by the new requirements. The effects may include identifying performance obligations in existing arrangements, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. The original effective date for us of this standard is January 1, 2017. However, the FASB has proposed a one-year deferral of the effective date to January 1, 2018 with the option to early adopt using the original effective date. The standard allows for either full retrospective adoption, meaning the standard is applied to all of the periods presented, or modified retrospective adoption, meaning the standard is applied only to the most current period presented in the financial statements. We are currently evaluating the transition method that will be elected.

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LSB INDUSTRIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(Unaudited)

Note 2: Income Per Common Share

	Three Months Ended							
	March 31,							
	2015	2014	(13.1)	(12.0%)				
Conservation & Load Management	**1.7**	0.8	0.9	1.9%	**2.6**	1.3	1.3	1.2%
Electric Sales Margin	**$ 13.2**	$ 12.8	$ 0.4	0.9%	**$ 27.3**	$ 27.2	$ 0.1	0.1%

(1) Represents change as a percent of Total Electric Operating Revenue.

Total Electric Operating Revenue, decreased by $0.4 million, or 0.8%, and $11.7 million, or 10.7%, in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. Total Electric Operating Revenues include the recovery of the approved cost of electric sales, which are recorded as Purchased Electricity and C&LM in Operating Expenses. The decrease in Total Electric Operating Revenues in the second quarter of 2010 reflects lower Purchased Electricity revenues of $1.7 million, partially offset by higher C&LM revenues of $0.9 million and higher electric sales margin of $0.4 million. The decrease in Total Electric Operating Revenues in the first six months of 2010 reflects lower Purchased Electricity revenues of $13.1 million, partially offset by higher C&LM revenues of $1.3 million and higher electric sales margin of $0.1 million.

The Purchased Electricity and C&LM components of Total Electric Operating Revenues decreased a combined $0.8 million, or 1.7%, and $11.8 million, or 10.8%, of Total Electric Operating Revenues in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. These decreases primarily reflect an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher spending on energy efficiency and conservation programs and increased sales. The Company recovers the cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin increased $0.4 million and $0.1 million in the three and six months ended June 30, 2010 compared to the same periods in 2009, reflecting higher electric kWh sales, as discussed above.

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Operating Revenue - Other

The following table details total Other Revenue for the three and six months ended June 30, 2010 and 2009:

Other Revenue (000 s)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	**2009**	**$ Change**	**% Change**	**2010**	**2009**	**$ Change**	**% Change**
Other	**$ 1.1**	$ 1.1	$		**$ 2.2**	$ 2.2	$	
Total Other Revenue	**$ 1.1**	$ 1.1	$		**$ 2.2**	$ 2.2	$	

Total Other Revenue was on par in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. Other Revenues represents revenues from the Company s non-regulated energy brokering business, Usource.

Operating Expenses

Purchased Gas Purchased Gas expenses include the cost of gas purchased and manufactured to supply the Company s total gas supply requirements. Purchased Gas increased $2.5 million, or 21.2%, and decreased $7.6 million, or 12.6%, in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009. The increase in the second quarter of 2010 is due to higher natural gas commodity costs partially offset by lower sales of natural gas. Also, Purchased Gas in the second quarter of 2010 reflects an adjustment of $0.8 million due to the recognition, for consistency purposes, of commodity-related bad debt expense previously recorded in O&M expense in the first quarter of 2010. The decrease in the six month period of 2010 primarily reflects lower sales of natural gas. The Company recovers the approved costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in these expenses do not affect earnings.

Purchased Electricity Purchased Electricity expenses include the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. Purchased Electricity decreased $1.7 million, or 5.1%, and $13.1 million, or 16.3%, in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. These decreases primarily reflect an increase in the amount of electricity purchased by customers directly from third-party suppliers and lower electric commodity costs, partially offset by increased sales. The Company recovers the approved costs of Purchased Electricity in its rates at cost on a pass through basis and therefore changes in these expenses do not affect earnings.

Operation and Maintenance (O&M) O&M expense includes electric and gas utility operating costs, and the operating cost of the Company s unregulated business activities. Total O&M expenses decreased $0.4 million, or 3.3%, and increased $1.4 million, or 6.3%, for the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009. The changes in O&M reflect higher utility operating costs and lower professional fees. Utility operating costs primarily consist of compensation and benefit costs, utility distribution and transmission system maintenance costs, bad debt expenses, office expenses and insurance costs. The increases in utility operating expenses reflect the full integration of Northern Utilities and Granite into the Company s consolidated operating results.

Conservation & Load Management Conservation and Load Management expenses are expenses associated with the development, management, and delivery of the Company s energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy usage. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 60% of these costs are related to electric operations and 40% to gas operations.

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Total C&LM expenses increased $1.1 million, or 78.6% and $1.7 million, or 68.0%, in the three and six month periods ended June 30, 2010 compared to the same periods in 2009. These approved costs are collected from customers on a pass through basis and therefore, fluctuations in program costs do not affect earnings.

Depreciation, Amortization and Taxes

Depreciation and Amortization Depreciation and Amortization expense increased $0.7 million, or 10.9%, and $1.5 million, or 11.8% in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. These increases reflect higher depreciation on normal utility plant additions.

Local Property and Other Taxes Local Property and Other Taxes increased $0.3 million and $0.4 million in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. These increases reflect higher local property tax rates on higher levels of utility plant in service and higher payroll taxes on higher compensation expenses.

Federal and State Income Taxes Federal and State Income Taxes were lower by $1.1 million and $2.5 million in the three and six month periods ended June 30, 2010 compared to the same periods in 2009 reflecting lower pre-tax earnings in the current periods.

Other Non-Operating Expenses (Income)

Other Non-Operating Expenses were on par in the three month period ended June 30, 2010 compared to the same period in 2009 and increased by $0.1 million in the six month period ended June 30, 2010 compared to the same period in 2009.

Interest Expense, Net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. In addition, certain reconciling rate mechanisms used by the Company s distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

Unitil s utility subsidiaries operate a number of reconciling rate mechanisms to recover specifically identified costs on a pass through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the distribution utilities rate tariffs, interest is accrued on these balances and will produce either interest income or interest expense. Consistent with regulatory precedent, interest income is recorded on an under-collection of costs which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

Interest Expense, Net (Millions)	Three Months Ended June 30, 2010	2009	Change	Six Months Ended June 30, 2010	2009	Change
Interest Expense						
Long-term Debt	**$ 5.1**	$ 4.5	$ 0.6	**$ 9.8**	$ 9.1	$ 0.7
Short-term Debt	**0.3**	0.6	(0.3)	**0.8**	1.1	(0.3)
Regulatory Liabilities	**0.1**	0.1		**0.2**	0.1	0.1
Subtotal Interest Expense	**5.5**	5.2	0.3	**10.8**	10.3	0.5
Interest (Income)						
Regulatory Assets	**(0.9)**	(0.6)	(0.3)	**(1.7)**	(1.3)	(0.4)
AFUDC[1] and Other	**(0.1)**	(0.9)	0.8	**(0.3)**	(0.5)	0.2
Subtotal Interest (Income)	**(1.0)**	(1.5)	0.5	**(2.0)**	(1.8)	(0.2)
Total Interest Expense, Net	**$ 4.5**	$ 3.7	$ 0.8	**$ 8.8**	$ 8.5	$ 0.3

(1) AFUDC Allowance for Funds Used During Construction.

Interest Expense, Net increased $0.8 million and $0.3 million in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. In March 2010, Unitil Energy and Northern Utilities collectively issued $40 million of long-term debt which is contributing to the higher interest expense in the three and six month periods. Furthermore, net interest expense in 2010 reflects the permanent financing of Northern Utilities and Granite, which was completed in the second quarter of 2009.

On March 2, 2010, Unitil Energy completed the sale of $15 million of First Mortgage Bonds through a private placement to institutional investors. The First Mortgage Bonds have a maturity of ten years and a coupon rate of 5.24%. The Company used the proceeds from this long-term financing to repay short-term debt and for general corporate purposes.

On March 2, 2010, Northern Utilities completed the sale of $25 million of Senior Unsecured Notes through a private placement to institutional investors. The Senior Unsecured Notes have a maturity of ten years and a coupon rate of 5.29%. The Company used the proceeds from this long-term financing to repay short-term debt and for general corporate purposes.

CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities. The Company initially supplements internally-generated funds through bank borrowings, as needed, under its unsecured short-term bank credit facility. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. The Company s utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows.

The continued availability of these methods of financing, as well as the Company s choice of a specific form of security, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of the Company s earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

At June 30, 2010, the Company had $24.6 million in short-term debt outstanding through bank borrowings under its revolving credit facility. The revolving credit facility contains customary terms and conditions for credit facilities of this type, including certain financial covenants. As of June 30, 2010, the Company was in compliance with the financial covenants contained in the revolving credit facility.

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $8.5 million, $3.1 million and $10.0 million outstanding at June 30, 2010, June 30, 2009 and December 31, 2009, respectively, related to these asset management agreements.

The Company also provides limited guarantees on certain energy and natural gas storage management contracts entered into by the three distribution utilities. The Company s policy is to limit these guarantees to two years or less. As of June 30, 2010 there are $40.8 million of guarantees outstanding and the longest of these guarantees extends through October 31, 2011. Of this amount, $12.0 million is related to Unitil s guarantee of payment for the term of the Northern Utilities gas storage Agreement discussed above.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite. As of June 30, 2010, the principal amount outstanding for the 8% Unitil Realty notes was $4.0 million. On December 15, 2008, the Company entered into a guarantee for the payment of principal, interest and other amounts payable on the $10 million Granite notes due 2018. As of June 30, 2010, the principal amount outstanding for the 7.15% Granite notes was $10.0 million.

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil s subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements.

Cash Flows

Unitil s utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for the six months ended June 30, 2010 compared to the same period in 2009.

	Six Months Ended June 30,	
	2010	**2009**
Cash Provided by Operating Activities	**$ 27.0**	$ 53.5

Cash Provided by Operating Activities Cash Provided by Operating Activities was $27.0 million in the first six months of 2010 compared to $53.5 million in the same period of 2009. In the first six months of 2010 as compared to the first six months of 2009, net sources of cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes decreased by $6.1 million, changes in current assets and liabilities decreased $19.9 million, and changes in all other Operating Activities decreased $0.5 million. The $19.9 million decrease in changes in current assets and liabilities primarily resulted from a decrease in gas inventory of $19.9 million driven by changes in natural gas prices. The Company finances its gas inventory requirements with asset management agreements (see Credit Arrangements in Note 4).

	Six Months Ended June 30,	
	2010	**2009**
Cash (Used in) Investing Activities	**$ (19.2)**	$ (32.2)

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Cash (Used in) Investing Activities Cash (Used in) Investing Activities was ($19.2) million for the six months ended June 30, 2010 compared to ($32.2) million for the same period in 2009. The Company recorded ($1.3) million of the total expenditures related to the February 2010 wind storm as capital spending and the remaining ($5.9) of expenditures have been deferred as a regulatory asset for future recovery in rates. Capital spending in the same period of 2009 included ($7.5) million related to the December 2008 ice storm and ($6.1) million of acquisition costs related to the acquisition of Northern Utilities and Granite. All other capital spending in the first six months of 2010 was ($17.9) million compared to ($18.6) million in the same period of 2009. Capital expenditures are projected to be approximately ($64.0) million in 2010 and ($60.0) million in 2011, reflecting normal electric and gas utility system additions.

	Six Months Ended June 30,	
	2010	**2009**
Cash (Used in) Financing Activities	**$ (9.2)**	$ (22.5)

Cash Provided by (Used in) Financing Activities Cash Provided by (Used in) Financing Activities was ($9.2) million in the six months ended June 30, 2010 compared to ($22.5) million for the same period in 2009. In March 2010, Unitil Energy and Northern Utilities closed long-term debt financings of $15.0 million and $25.0 million, respectively. The net proceeds of these financings were used to refinance short-term borrowings. Short-term borrowings were reduced by ($39.9) million in the first six months of 2010. Other uses of cash include ($7.6) million for quarterly dividend payments and ($1.6) million related to gas inventory financing. Proceeds from issuances of common stock provided a source of cash of $0.5 million, and all other uses of cash were ($0.3) million.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company s financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company s most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company s significant accounting policies, refer to the Note 1 to the Consolidated Financial Statements in the Company s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 10, 2010.

Regulatory Accounting The Company s principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite, the Company s natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

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Regulatory Assets consist of the following (millions)

	June 30, 2010	June 30, 2009	December 31, 2009
Energy Supply Contract Obligations	**$ 27.8**	$ 42.8	$ 34.7
Deferred Restructuring Costs	**26.9**	27.5	28.3
Generation-related Assets		0.4	
Subtotal Restructuring Related Items	**54.7**	70.7	63.0
Retirement Benefit Obligations	**43.7**	46.2	43.7
Income Taxes	**13.3**	15.3	14.5
Environmental Obligations	**21.2**	21.9	22.7
Deferred Storm Charges	**21.7**	12.5	14.6
Other	**8.7**	10.4	7.9
Total Regulatory Assets	**$ 163.3**	$ 177.0	$ 166.4
Less: Current Portion of Regulatory Assets(1)	**16.6**	24.0	21.9
Regulatory Assets noncurrent	**$ 146.7**	$ 153.0	$ 144.5

(1) Reflects amounts included in Accrued Revenue on the Company s Consolidated Balance Sheets.

The Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company s consolidated financial statements. The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company s opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Utility Revenue Recognition Regulated utility revenues are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

Allowance for Doubtful Accounts The Company recognizes a provision for doubtful accounts each month based upon the Company s experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company s distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company s experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

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Retirement Benefit Obligations The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The Company records on its balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates.

The Company s reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. The Company s RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs.

The Company s RBO may also be significantly affected by changes in key actuarial assumptions, including, anticipated rates of return on plan assets and the discount rates used in determining the Company s RBO. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company s financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on a market average of long-term bonds that receive one of the two highest ratings given by a recognized rating agency. For the years ended December 31, 2009 and 2008, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $300,000 and $200,000, respectively, in the Net Periodic Benefit Cost for the Pension Plan. For the years ended December 31, 2009 and 2008, a 1.0% increase in the assumption of health care cost trend rates would have resulted in increases in the Net Periodic Benefit Cost for the PBOP Plan of $735,000 and $675,000, respectively. Similarly, a 1.0% decrease in the assumption of health care cost trend rates for those same time periods would have resulted in decreases in the Net Periodic Benefit Cost for the PBOP Plan of $576,000 and $531,000, respectively. See Note 8 to the accompanying Consolidated Financial Statements.

Income Taxes Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. This process involves estimating the Company s current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company s consolidated balance sheets.

Depreciation Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company s fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company s consolidated financial statements.

Commitments and Contingencies The Company s accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of June 30, 2010, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company s consolidated financial statements below.

Refer to Recently Issued Accounting Pronouncements in Note 1 of the Notes of Consolidated Financial Statements for information regarding recently issued accounting standards.

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LABOR RELATIONS

As of June 30, 2010, the Company and its subsidiaries had 431 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of June 30, 2010, 147 of the Company s employees were represented by labor unions. These employees are covered by four separate collective bargaining agreements which expire on March 31, 2012, May 31, 2012, May 31, 2013 and June 5, 2014. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was $25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately $250,000. The average interest rates on the Company s short-term borrowings for the three months ended June 30, 2010 and June 30, 2009 were 2.33% and 4.28%, respectively. The average interest rates on the Company s short-term borrowings for the six months ended June 30, 2010 and June 30, 2009 were 2.28% and 4.53%, respectively.

MARKET RISK

Although Unitil s three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for full collection of electric power and natural gas supply costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

REGULATORY MATTERS

Please refer to Note 6 to the Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Regulatory Matters.

ENVIRONMENTAL MATTERS

Please refer to Note 7 to the Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Environmental Matters.

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Item 1. Financial Statements

UNITIL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Millions except common shares and per share data)

(UNAUDITED)

	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating Revenues				
Gas	**$ 23.7**	$ 23.4	**$ 84.8**	$ 95.8
Electric	**46.6**	47.0	**97.4**	109.1
Other	**1.1**	1.1	**2.2**	2.2
Total Operating Revenues	**71.4**	71.5	**184.4**	207.1
Operating Expenses				
Purchased Gas	**14.3**	11.8	**52.6**	60.2
Purchased Electricity	**31.7**	33.4	**67.5**	80.6
Operation and Maintenance	**11.6**	12.0	**23.8**	22.4
Conservation & Load Management	**2.5**	1.4	**4.2**	2.5
Depreciation and Amortization	**7.1**	6.4	**14.2**	12.7
Provisions (Benefit) for Taxes:				
Local Property and Other	**2.5**	2.2	**5.6**	5.2
Federal and State Income	**(1.0)**	0.1	**2.9**	5.4
Total Operating Expenses	**68.7**	67.3	**170.8**	189.0
Operating Income	**2.7**	4.2	**13.6**	18.1
Non-Operating Expenses (Income)	**0.2**	0.2	**0.3**	0.2
Income Before Interest Expense	**2.5**	4.0	**13.3**	17.9
Interest Expense, Net	**4.5**	3.7	**8.8**	8.5
Net Income (Loss)	**(2.0)**	0.3	**4.5**	9.4
Less: Dividends on Preferred Stock	**0.1**	0.1	**0.1**	0.1
Earnings (Loss) Applicable to Common Shareholders	**$ (2.1)**	$ 0.2	**$ 4.4**	$ 9.3
Weighted Average Common Shares Outstanding Basic (000 s)	**10,820**	9,014	**10,810**	8,516
Weighted Average Common Shares Outstanding Diluted (000 s)	**10,820**	9,014	**10,811**	8,516
Earnings Per Common Share (Basic and Diluted)	**$ (0.19)**	$ 0.03	**$ 0.41**	$ 1.10
Dividends Declared Per Share of Common Stock	**$ 0.345**	$ 0.345	**$ 1.035**	$ 1.035

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS

(Millions)

(UNAUDITED)

	June 30, 2010	June 30, 2009	December 31, 2009
ASSETS:			
Utility Plant:			
Electric	**$ 310.7**	$ 294.1	$ 302.3
Gas	**330.2**	314.5	325.5
Common	**29.7**	27.8	28.9
Construction Work in Progress	**29.0**	13.4	26.0
Total Utility Plant	**699.6**	649.8	682.7
Less: Accumulated Depreciation	**243.0**	223.0	233.0
Net Utility Plant	**456.6**	426.8	449.7
Current Assets:			
Cash	**6.3**	10.3	7.7
Accounts Receivable Net of Allowance for Doubtful Accounts of $3.0, $2.8 and $2.5	**27.9**	30.9	33.5
Accrued Revenue	**22.5**	31.0	44.0
Gas Inventory	**11.1**	8.5	14.3
Materials and Supplies	**3.4**	3.0	2.6
Prepayments and Other	**4.5**	4.1	4.7
Total Current Assets	**75.7**	87.8	106.8
Noncurrent Assets:			
Regulatory Assets	**146.7**	153.0	144.5
Other Noncurrent Assets	**26.6**	26.9	24.2
Total Noncurrent Assets	**173.3**	179.9	168.7
TOTAL	**$ 705.6**	$ 694.5	$ 725.2

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS (Cont.)

(Millions)

	(UNAUDITED) June 30, 2010	2009	December 31, 2009
CAPITALIZATION AND LIABILITIES:			
Capitalization:			
Common Stock Equity	**$ 187.0**	$ 195.9	$ 193.1
Preferred Stock	**2.0**	2.0	2.0
Long-Term Debt, Less Current Portion	**288.6**	249.1	248.9
Total Capitalization	**477.6**	447.0	444.0
Current Liabilities:			
Long-Term Debt, Current Portion	**0.4**	0.4	0.4
Accounts Payable	**16.7**	19.1	25.1
Short-Term Debt	**24.6**	30.6	64.5
Energy Supply Contract Obligations	**19.1**	18.1	23.1
Other Current Liabilities	**24.6**	32.9	16.6
Total Current Liabilities	**85.4**	101.1	129.7
Deferred Income Taxes	**33.6**	29.8	39.8
Noncurrent Liabilities:			
Energy Supply Contract Obligations	**17.1**	27.7	21.7
Retirement Benefit Obligations	**67.3**	71.1	65.5
Environmental Obligations	**14.3**	11.4	14.3
Other Noncurrent Liabilities	**10.3**	6.4	10.2
Total Noncurrent Liabilities	**109.0**	116.6	111.7
TOTAL	**$ 705.6**	$ 694.5	$ 725.2

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions)

(UNAUDITED)

	Six Months Ended June 30, 2010	2009
Operating Activities:		
Net Income	**$ 4.5**	$ 9.4
Adjustments to Reconcile Net Income to Cash		
Provided by Operating Activities:		
Depreciation and Amortization	**14.2**	12.7
Deferred Tax Provision	**(5.3)**	(2.6)
Changes in Current Assets and Liabilities:		
Accounts Receivable	**5.6**	8.8
Accrued Revenue	**21.5**	25.9
Gas Inventory	**3.2**	23.1
Accounts Payable	**(8.4)**	(9.4)
All other Current Assets and Liabilities	**0.4**	(6.2)
Deferred Regulatory and Other Charges	**(5.1)**	(12.2)
Other, net	**(3.6)**	4.0
Cash Provided by Operating Activities	**27.0**	53.5
Investing Activities:		
Property, Plant and Equipment Additions	**(19.2)**	(26.1)
Acquisition Costs		(6.1)
Cash (Used in) Investing Activities	**(19.2)**	(32.2)
Financing Activities:		
Repayment of Short-Term Debt	**(39.9)**	(43.5)
Proceeds From Issuance (Repayment of) Long-Term Debt, net	**39.7**	(0.2)
Net Decrease in Gas Inventory Financing	**(1.6)**	(28.7)
Dividends Paid	**(7.6)**	(5.6)
Proceeds from Issuance of Common Stock, net	**0.5**	56.2
Other, net	**(0.3)**	(0.7)
Cash (Used in) Financing Activities	**(9.2)**	(22.5)
Net Decrease in Cash	**(1.4)**	(1.2)
Cash at Beginning of Period	**7.7**	11.5
Cash at End of Period	**$ 6.3**	$ 10.3
Supplemental Cash Flow Information:		
Interest Paid	**$ 9.7**	$ 9.7

Income Taxes Paid	**$ 1.0**	$ 0.5

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

UNITIL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (Unitil Energy), Fitchburg Gas and Electric Light Company (Fitchburg), Northern Utilities, Inc. (Northern Utilities), Granite State Gas Transmission, Inc. (Granite), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource, Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource, Inc. (NiSource) pursuant to the Stock Purchase agreement dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions). The final purchase price allocation is disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on February 10, 2010.

Unitil s principal business is the local distribution of electricity in the southeastern seacoast and state capital regions of New Hampshire and the greater Fitchburg area of north central Massachusetts and the local distribution of natural gas in southeastern New Hampshire, portions of southern and central Maine and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine (collectively referred to as the distribution utilities).

Granite is a natural gas transportation pipeline, operating 87 miles of underground gas transmission pipeline primarily located in Maine, New Hampshire and Massachusetts. Granite provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third party marketers.

A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of its long-term power supply contracts through the sale of the entitlements to the electricity associated with various electric power supply contracts it had acquired to serve Unitil Energy s customers.

Unitil also has three other wholly-owned subsidiaries: Unitil Service; Unitil Realty; and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology, energy management and management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company s corporate office in Hampton, New Hampshire and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company s wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation The accompanying unaudited consolidated financial statements of Unitil have been prepared in accordance with the instructions to Form 10-Q and include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of results to be expected for the year ending December 31, 2010. For further information, please refer to Note 1 of Part II to the Consolidated Financial Statements Summary of Significant Accounting Policies of the Company s Form 10-K for the year ended December 31,

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2009, as filed with the Securities and Exchange Commission (SEC) on February 10, 2010, for a description of the Company s Basis of Presentation.

Between December 2008 and June 2009 the Company issued 5.0 million common shares to complete the Acquisition. As a result of the Acquisition and the issuance of new common shares, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the Acquisition and stock issuance is fully reflected in both reporting periods. Also, the Company s results are expected to reflect the seasonal nature of the acquired natural gas businesses. Accordingly, the Company expects that results of operations will be positively affected during the first and fourth quarters, when sales of natural gas are typically higher, and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

Accounting Codification In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles , (SFAS No. 168). SFAS No. 168 was effective for financial statements for interim and annual periods ending after September 15, 2009. The Company has adopted SFAS No. 168 and therefore all references by the Company to authoritative accounting principles recognized by the FASB reflect the FASB Codification.

Derivatives The Company has a regulatory approved hedging program for Northern Utilities designed to fix a portion of its gas supply costs for the coming year of service. In order to fix these costs, the Company purchases natural gas futures contracts on the New York Mercantile Exchange (NYMEX) that correspond to the associated delivery month. Any gains or losses resulting from the change in the fair value of these derivatives are passed through to ratepayers directly through a regulatory commission approved recovery mechanism. The fair value of these derivatives is determined using Level 2 inputs (valuations based on quoted prices available in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived principally from market data), specifically based on the NYMEX closing prices for outstanding contracts as of the balance sheet date. As a result of the ratemaking process, the Company records gains and losses resulting from the change in fair value of the derivatives as regulatory liabilities or assets, then reclassifies these gains or losses into Purchased Gas when the gains and losses are passed through to customers in accordance with rate reconciling mechanisms.

As of June 30, 2010 and December 31, 2009, the Company had 1.3 billion and 1.9 billion cubic feet (BCF), respectively, outstanding in natural gas purchase contracts under its hedging program.

Liability Derivatives ($ millions)

The tables below show derivatives that are not designated as hedging instruments, under FASB ASC 815-20. As discussed above, the change in fair value related to these derivatives is recorded initially as a Regulatory Asset then reclassified to Purchased Gas in accordance with the recovery mechanism. The tables below include disclosure of the Regulatory Asset and reclassifications from the Regulatory Asset into Purchased Gas.

	As of					
	June 30, 2010		June 30, 2009		December 31, 2009	
Description	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Natural Gas Futures Contracts	Other Current Liabilities	$ 1.2	Other Current Liabilities	$ 5.5	Other Current Liabilities	$ 2.2
Natural Gas Futures Contracts	Other Noncurrent Liabilities	0.1	Other Noncurrent Liabilities		Other Noncurrent Liabilities	0.1
Total		$ 1.3		$ 5.5		$ 2.3

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Regulatory Approved Hedging Programs	Amount of Loss Recognized in Regulatory Assets for Derivatives Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Natural Gas Futures Contracts	$ 1.0	$ 2.9
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Natural Gas Futures Contracts	$ 1.4	$ 5.6

Location of Loss Reclassified into the Consolidated Statements of Earnings from Regulatory Assets	Amount of Loss Reclassified into the Consolidated Statements of Earnings from Regulatory Assets[1] Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Purchased Gas	$ 1.6	$ 3.9
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Purchased Gas	$ 2.8	$ 5.8

(1) These amounts are offset in the Consolidated Statements of Earnings with Accrued Revenue and therefore there is no effect on earnings.

Subsequent Events The Company has evaluated all events or transactions through the date of this filing. During this period, the Company did not have any material subsequent events that impacted its consolidated financial statements.

Reclassifications Certain amounts previously reported have been reclassified to improve the financial statements presentation and to conform to current year presentation.

Recently Issued Pronouncements There are no recently issued pronouncements that the Company has not already adopted.

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NOTE 2 DIVIDENDS DECLARED PER SHARE

Declaration Date	Date Paid (Payable)	Shareholder of Record Date	Dividend Amount
06/17/10	08/16/10	08/02/10	$ 0.345
03/25/10	05/14/10	04/30/10	$ 0.345
01/14/10	02/16/10	02/02/10	$ 0.345
09/23/09	11/16/09	11/02/09	$ 0.345
06/18/09	08/14/09	07/31/09	$ 0.345
03/26/09	05/15/09	05/01/09	$ 0.345
01/15/09	02/16/09	02/02/09	$ 0.345

NOTE 3 COMMON STOCK AND PREFERRED STOCK

Common Stock

The Company s common stock trades under the symbol UTL .

On September 10, 2008, the Company s shareholders, at a Special Meeting of Shareholders, approved an increase in the number of authorized shares of the Company s common stock. Shareholders approved an amendment to the Company s Articles of Incorporation to increase the authorized number of shares of the Company s common stock, from 8,000,000 shares to 16,000,000 shares in the aggregate. The Company had 10,869,603, 10,816,312 and 10,836,759 of common shares outstanding at June 30, 2010, June 30, 2009 and December 31, 2009, respectively.

Unitil Corporation Common Stock Offering Between December 2008 and June 2009, the Company sold 4,970,000 shares of its common stock at a price of $20.00 per share in registered public offerings. The Company used the net proceeds of $93.1 million from these offerings primarily to complete the acquisition of Northern Utilities and Granite. Please see Note 3 to the Consolidated Financial Statements in the Company s Form 10-K for the year ended December 31, 2009 as filed with the SEC on February 10, 2010 for additional information.

Dividend Reinvestment and Stock Purchase Plan During the first six months of 2010, the Company sold 20,639 shares of its Common Stock, at an average price of $21.80 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan and its 401(k) plans. Net proceeds of approximately $450,000 were used to reduce short-term borrowings.

During the first six months of 2009, the Company sold 22,435 shares of its Common Stock, at an average price of $20.72 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan and its 401(k) plans. Net proceeds of approximately $465,000 were used to reduce short-term borrowings.

Restricted Stock Plan The Company maintains a Restricted Stock Plan (the Plan) which has been ratified and approved by the Company s shareholders. On February 5, 2010, 12,520 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $262,920. There were 37,797 and 44,602 non-vested shares under the Plan as of June 30, 2010 and 2009, respectively. The weighted average grant date fair value of these shares was $22.03 and $22.98, respectively. The compensation expense associated with the issuance of shares under the Plan is being recognized over the vesting period and was $0.3 million and $0.3 million for the six months ended June 30, 2010 and 2009, respectively. At June 30, 2010, there was approximately $1.0 million of total unrecognized compensation cost under the Plan which is expected to be recognized over approximately 2.7 years. There were 315 restricted shares forfeited under the Plan during the six months ended June 30, 2010. There were no cancellations under the Plan during the six months ended June 30, 2010.

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Preferred Stock

Details on preferred stock at June 30, 2010, June 30, 2009 and December 31, 2009 are shown below:

(Amounts in Millions)

	June 30, 2010	June 30, 2009	December 31, 2009
Preferred Stock			
Unitil Energy Preferred Stock, Non-Redeemable, Non-Cumulative:			
6.00% Series, $100 Par Value	**$ 0.2**	$ 0.2	$ 0.2
Fitchburg Preferred Stock, Redeemable, Cumulative:			
5.125% Series, $100 Par Value	**0.8**	0.8	0.8
8.00% Series, $100 Par Value	**1.0**	1.0	1.0
Total Preferred Stock	**$ 2.0**	$ 2.0	$ 2.0

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NOTE 4 LONG-TERM DEBT, CREDIT ARRANGEMENTS AND GUARANTEES

Long-Term Debt

Details on long-term debt at June 30, 2010, June 30, 2009 and December 31, 2009 are shown below ($ Millions):

	June 30, 2010	June 30, 2009	December 31, 2009
Unitil Corporation Senior Notes:			
6.33% Notes, Due May 1, 2022	**$ 20.0**	$ 20.0	$ 20.0
Unitil Energy Systems, Inc.:			
First Mortgage Bonds:			
5.24% Series, Due March 2, 2020	**15.0**		
8.49% Series, Due October 14, 2024	**15.0**	15.0	15.0
6.96% Series, Due September 1, 2028	**20.0**	20.0	20.0
8.00% Series, Due May 1, 2031	**15.0**	15.0	15.0
6.32% Series, Due September 15, 2036	**15.0**	15.0	15.0
Fitchburg Gas and Electric Light Company:			
Long-Term Notes:			
6.75% Notes, Due November 30, 2023	**19.0**	19.0	19.0
7.37% Notes, Due January 15, 2029	**12.0**	12.0	12.0
7.98% Notes, Due June 1, 2031	**14.0**	14.0	14.0
6.79% Notes, Due October 15, 2025	**10.0**	10.0	10.0
5.90% Notes, Due December 15, 2030	**15.0**	15.0	15.0
Northern Utilities Senior Notes:			
6.95% Senior Notes, Due December 3, 2018	**30.0**	30.0	30.0
5.29% Senior Notes, Due March 2, 2020	**25.0**		
7.72% Senior Notes, Due December 3, 2038	**50.0**	50.0	50.0
Granite Senior Notes:			
7.15% Senior Notes, Due December 15, 2018	**10.0**	10.0	10.0
Unitil Realty Corp.:			
Senior Secured Notes:			
8.00% Notes, Due Through August 1, 2017	**4.0**	4.5	4.3
Total Long-Term Debt	**289.0**	249.5	249.3
Less: Current Portion	**0.4**	0.4	0.4
Total Long-term Debt, Less Current Portion	**$ 288.6**	$ 249.1	$ 248.9

The fair value of the Company s long-term debt is estimated based on the quoted market prices for the same or similar issues, or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company s long-term debt at June 30, 2010 is estimated to be approximately $311 million, before considering any costs, including prepayment costs, which generally require a make-whole payment, to market the Company s debt. Currently, the Company believes that there is no active market in the Company s debt securities, which have all been sold through private placements.

On March 2, 2010, Unitil Energy completed the sale of $15 million of First Mortgage Bonds through a private placement to institutional investors. The First Mortgage Bonds have a maturity of ten years and a coupon rate of

5.24%. The Company used the proceeds from this long-term financing to repay short-term debt and for general corporate purposes.

On March 2, 2010, Northern Utilities completed the sale of $25 million of Senior Unsecured Notes through a private placement to institutional investors. The Senior Unsecured Notes have a maturity of ten years and a coupon rate of 5.29%. The Company used the proceeds from this long-term financing to repay short-term debt and for general corporate purposes.

Credit Arrangements

At June 30, 2010, the Company had $24.6 million in short-term debt outstanding through bank borrowings under its revolving credit facility. The revolving credit facility contains customary terms and conditions for credit facilities of this type, including, without limitation, covenants restricting the Company s ability to incur liens, merge or consolidate with another entity or change its line of business. The revolving credit agreement also contains a covenant restricting the Company s ability to permit long-term debt to exceed 65% of capitalization at the end of each fiscal quarter. As of June 30, 2010, the Company was in compliance with the financial covenants contained in the revolving credit agreement.

On October 13, 2009, the Company entered into an amendment to its 364-day revolving credit facility with Bank of America, as administrative agent, and a syndicate of lenders. The Company originally entered into the facility on November 26, 2008. The amendment increased the maximum borrowings under the facility from $60 million to $80 million.

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $8.5 million, $3.1 million and $10.0 million outstanding at June 30, 2010, June 30, 2009 and December 31, 2009, respectively, related to these asset management agreements.

Guarantees

The Company also provides limited guarantees on certain energy and natural gas storage management contracts entered into by the three distribution utilities. The Company s policy is to limit these guarantees to two years or less. As of June 30, 2010 there are $40.8 million of guarantees outstanding and the longest of these guarantees extends through October 31, 2011. Of this amount, $12.0 million is related to Unitil s guarantee of payment for the term of the Northern Utilities gas storage Agreement discussed above.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite. As of June 30, 2010, the principal amount outstanding for the 8% Unitil Realty notes was $4.0 million. On December 15, 2008, the Company entered into a guarantee for the payment of principal, interest and other amounts payable on the $10 million Granite notes due 2018. As of June 30, 2010, the principal amount outstanding for the 7.15% Granite notes was $10.0 million. This guarantee will terminate if Granite reorganizes and merges with and into Northern Utilities.

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NOTE 5 SEGMENT INFORMATION

The following table provides significant segment financial data for the three and six months ended June 30, 2010 and June 30, 2009 (Millions):

Three Months Ended June 30, 2010	Electric	Gas	Other	Non-Regulated	Total
Revenues	**$ 46.6**	**$ 23.7**	**$**	**$ 1.1**	**$ 71.4**
Segment Profit (Loss)	**0.7**	**(3.1)**		**0.3**	**(2.1)**
Capital Expenditures	**1.0**	**7.5**	**0.4**		**8.9**
Three Months Ended June 30, 2009					
Revenues	$ 47.0	$ 23.4	$	$ 1.1	$ 71.5
Segment Profit (Loss)	(0.2)	(0.5)	0.5	0.4	0.2
Capital Expenditures	1.8	6.3			8.1
Six Months Ended June 30, 2010					
Revenues	**$ 97.4**	**$ 84.8**	**$**	**$ 2.2**	**$ 184.4**
Segment Profit (Loss)	**2.0**	**1.5**	**0.2**	**0.7**	**4.4**
Capital Expenditures	**7.9**	**10.3**	**1.0**		**19.2**
Segment Assets	**352.1**	**341.4**	**8.1**	**4.0**	**705.6**
Six Months Ended June 30, 2009					
Revenues	$ 109.1	$ 95.8	$	$ 2.2	$ 207.1
Segment Profit (Loss)	1.3	7.1	0.1	0.8	9.3
Capital Expenditures	15.1	10.9	0.1		26.1
Segment Assets	345.1	338.9	8.1	2.4	694.5

NOTE 6 REGULATORY MATTERS

UNITIL S REGULATORY MATTERS ARE DESCRIBED IN NOTE 7 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART II OF UNITIL CORPORATION S FORM 10-K FOR DECEMBER 31, 2009 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 10, 2010.

Legal Proceedings

A putative class action Complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. On April 1, 2009 an Amended Complaint was filed in Worcester Superior Court and served on Fitchburg. The Amended Complaint seeks an unspecified amount of damages including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred by customers in connection with the loss of electric service during the ice storm in Fitchburg s service territory in December, 2008. The Amended Complaint includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 Storm. On September 4, 2009, the Superior Court issued its order on the Company s Motion to Dismiss the Complaint, granting it in part and denying it in part. The Company anticipates that the court will decide whether the lawsuit is appropriate for class action treatment in the fall of 2010. The Company continues to believe the suit is without merit, and will defend itself vigorously.

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Regulatory Matters

Unitil Energy Rate Case Filing On April 15, 2010 Unitil Energy filed a proposed base rate increase of $10.1 million which represents an increase of 6.5 percent above present rates. Unitil Energy requested temporary rates to be effective July 1, 2010. In addition, Unitil Energy requested adjustments for a Rate Year Step Adjustment, a Large Capital Project Step Adjustment and a long-term rate plan establishing step adjustments associated with the Company s Reliability Enhancement Plan and Vegetation Management Plan. On June 29, 2010, the NHPUC issued an order approving a temporary rate increase for Unitil Energy. The order provides for a temporary rate increase of $5.2 million (annual) effective July 1, 2010 which will be collected by applying a uniform per kilowatt-hour (kWh) surcharge of $0.00438 to each of Unitil Energy s current rate schedules. Of the $5.2 million rate increase, $500,000 of the increase is intended to permit Unitil Energy to annually recover expenses incurred during the December 2008 ice storm and another $500,000 of the increase is intended to fund higher planned vegetation management program expenditures. Once permanent rates are approved by the NHPUC, they will be reconciled to the date temporary rates were ordered, July 1, 2010. Final review and approval by the NHPUC of Unitil Energy s permanent base rate increase request is scheduled to be completed by February 2011.

Major Ice Storm On December 11 and 12, 2008, a severe ice storm (December 2008 Ice Storm) struck the New England region. The Company spent approximately $24.0 million for the repair and replacement of electric distribution systems damaged during the storm, including $8.3 million related to capital construction and $15.8 million, including carrying charges, which has been deferred as a regulatory asset, based on orders issued by the MDPU and NHPUC, discussed below. Also, the Company expensed $3.0 million for professional fees related to the ice storm, in addition to normal anticipated expenditures related to emergency storm preparedness. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company s financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, and/or the Company were required to incur additional costs to defend itself, there may be a significant impact on the Company s results of operations in future periods.

The MDPU conducted an investigation of Fitchburg s preparation for and response to the December 2008 Ice Storm during the first half of 2009. On November 2, 2009, the MDPU issued its order with respect to its investigation, finding that Fitchburg s preparation for, and response to, the December 2008 Ice Storm constituted a failure of the Company to meet its public service obligation to provide safe and reliable service, and ordered several remedial actions. First, the MDPU ordered a comprehensive independent management audit of Fitchburg s management practices. The management audit is expected to begin in the third quarter of 2010, subject to the selection of the audit firm by the MDPU from a list of qualified bidders who responded to an RFP issued by Fitchburg. Second, the MDPU directed Fitchburg to implement a series of operational and capital improvements which had been identified and recommended through the Company s self-assessment review. All of these operational and capital improvements have either been completed or are currently underway, and remain subject to MDPU review. Finally, the MDPU noted that the costs incurred by Fitchburg for the December 2008 Ice Storm would be subject to review in Fitchburg s next electric rate case, along with Fitchburg s rate of return.

On July 28, 2009, Fitchburg filed with the MDPU a petition for approval to defer and record as a regulatory asset costs associated with the repair of its electric distribution system from damage caused by the December 2008 Ice Storm for future recovery in rates. On December 30, 2009, the MDPU approved the request. The order of approval made no findings as to whether the subject expenses were reasonable or whether they can be recovered from ratepayers, and that the MDPU will consider the subsequent ratemaking treatment of the expense as part of Fitchburg s next rate case. As of June 30, 2010, Fitchburg has deferred approximately $13.5 million, including carrying charges, associated with the repair of its electric distribution system for future recovery in rates.

On August 26, 2009, Unitil Energy filed a petition with the NHPUC requesting an accounting order authorizing Unitil Energy to record as a regulatory asset costs associated with electric distribution system damage from the December 2008 Ice Storm until such time as the Commission issues a final order in Unitil Energy s next base rate case. On November 9, 2009, the NHPUC granted the requested accounting order, clarifying that such issues as the appropriate amount of the storm related expenses to be recovered, the timing and manner of recovery, and what, if any, return should be applied to the unrecovered balance are issues that are appropriate for review in Unitil Energy s rate case. As of June 30, 2010, Unitil Energy has deferred approximately $2.3 million, including carrying charges, associated with the repair of its electric distribution system for future recovery in rates.

On December 3, 2009, the NHPUC issued its After-Action report regarding its review of the December 2008 Ice Storm. The report stated that the NHPUC will commence an adjudicative proceeding to examine the reasonableness of Unitil s response to the December 2008 Ice Storm. On January 8, 2010, the NHPUC opened a docket to consider Unitil Energy s response to the December 2008 Ice Storm, including the timing of its response, its restoration priorities and strategies and the procurement and allocation of its resources in New Hampshire and Massachusetts. This matter remains pending.

Fitchburg Electric Operations On November 25, 2009, Fitchburg submitted to the MDPU its annual (2009) reconciliation of costs and revenues for Transition and Transmission under its restructuring plan (the Annual Reconciliation Filing). The rates were approved effective January 1, 2010, subject to reconciliation pending further investigation by the MDPU. This matter remains pending. A final order approving Fitchburg s 2008 Annual Reconciliation Filing was issued on April 12, 2010.

On November 12, 2009, the Governor of Massachusetts signed House Bill 4329. The bill (i) requires the MDPU to establish regulations for utilities to respond to emergencies, (ii) requires utilities to file with the MDPU annual emergency response plans, (iii) authorizes the MDPU to impose penalties for a utility s failure to comply with the MDPU s regulations, and (iv) allows the chair of the MDPU to issue operational and management directives during an emergency. The bill also authorizes the Massachusetts Attorney General to bring a court action for receivership of a small investor-owned utility where an emergency exists and the utility has materially violated the MDPU s standards for responding to emergencies. On February 2, 2010, the MDPU issued an order adopting regulations concerning the items required by House Bill 4329. Fitchburg has complied with the requirements concerning the filing of its emergency response plans and has met with MDPU Staff to review them.

Fitchburg Gas Operations On November 2, 2009 the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU s prior approval and that Fitchburg s gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund $4.6 million of natural gas costs, plus an appropriate carrying charge based on the prime lending rate, to its gas customers. The Company recorded a pre-tax charge of $4.9 million in the fourth quarter of 2009 based on the MDPU s order. On November 30, 2009, the MDPU approved Fitchburg s proposal to amortize its refund of natural gas costs to customers over a five-year period. Fitchburg has appealed the gas procurement Order to the Massachusetts Supreme Judicial Court. Fitchburg believes that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

During the summer of 2009, Fitchburg operated its gas system entirely on local production from LNG for approximately three months due to construction on the lateral from Tennessee Gas Pipeline, which is the sole source of pipeline gas to Fitchburg. During this time Fitchburg provided gas LNG supply to all firm sales customers and also to the retail marketers for delivery to firm customers who have contracted for third party supply. Fitchburg s management of this project was reviewed by the MDPU during its last Integrated Resource Plan proceeding, before the shutdown occurred. In its order, the MDPU stated it would investigate the costs associated with the shutdown in Fitchburg s March 2010 Cost of Gas Adjustment (CGA) Clause filing when its actual costs will be reconciled with its projected costs. The Company received some data requests on the subject in the CGA proceeding, but no further investigation was necessary and the proposed CGA rates were approved as filed.

Fitchburg Other On July 16, 2008, the MDPU issued an order establishing a comprehensive plan for Revenue Decoupling to be adopted by gas and electric distribution utilities on a going-forward basis, through company-specific rate cases. Revenue decoupling is generally defined as a ratemaking mechanism designed to eliminate or reduce the dependence of a utility s distribution revenues on sales, and is intended to remove the disincentive a utility has to promote efforts to reduce energy consumption by its customers or to facilitate installation of distributed generation to displace electricity delivered by the utility. It is anticipated that, with limited exceptions, all distribution companies will be operating under decoupling plans by year-end 2012.

On February 11, 2009, the Massachusetts Supreme Judicial Court (SJC) issued its decision in the Attorney General s (AG) appeal of the MDPU orders relating to Fitchburg s recovery of bad debt expense. The SJC agreed with the AG that the MDPU was required to hold hearings regarding changes in Fitchburg s tariff and rates, and on that basis vacated the MDPU orders. The Court, however, declined to rule on an appropriate remedy, and remanded the cases back to the MDPU for consideration of that issue. This matter remains pending before the MDPU.

On July 2, 2008, the Governor of Massachusetts signed into law The Green Communities Act (the GC Act), an energy policy statute designed to substantially increase energy efficiency and the development of renewable energy resources in Massachusetts. The GC Act provides for utilities to recover in rates the incremental costs associated with its various mandated programs. Several regulatory proceedings have been initiated to implement various provisions of the GC Act, including provisions for each distribution company to file enhanced three year energy efficiency investment plans, plans to establish smart grid pilot programs, proposals to purchase long-term contracts for renewable energy, special tariffs to allow the net metering of customer-owned renewable generation, and terms and conditions for purchasing supplier receivables. Three year energy efficiency investment plans, plans to establish smart grid pilot programs, and net metering tariffs have been approved by the MDPU. Proposals to purchase long-term contracts for renewable energy and terms and conditions for purchasing supplier receivables are under review in a separately designated docket.

Unitil Energy Other In July 2008, the State of New Hampshire enacted legislation that allows electric utilities to make investments in distributed energy resources, including energy efficiency and demand reduction technologies, as well as clean cogeneration and renewable generation. On August 5, 2009 Unitil Energy filed a plan for approval of investment in and rate recovery for Distributed Energy Resources. An order approving a settlement agreement for a time-of-use pilot program was issued on February 26, 2010. On June 11, 2010, the NHPUC issued an order on the remaining two proposed projects and cost recovery. The NHPUC denied one of the two projects, citing that the costs outweighed the benefits but found the other project to be in the public interest. Unitil Energy may also file step adjustments to base distribution rates to collect actual costs associated with authorized DER projects. Recovery of ongoing program management and reporting costs was not allowed at this time, however.

On February 25, 2010, a significant wind storm struck portions of the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including approximately 85% of the Company s customers. Unitil Energy was able to restore power to 96% percent of its customers by day three, and its final customers, including those with individual service problems, were restored by day four. The Company spent approximately $7.2 million for the repair and replacement of electric distribution systems damaged during the storm, including $1.3 million related to capital construction and $5.9 million which has been deferred as a regulatory asset. Unitil Energy, in its base rate case filing discussed above, has requested recovery in rates for the costs associated with the emergency repair of its electric distribution system for damage caused by this storm. The amount and timing of the cost recovery of the storm restoration expenditures will be determined in the base rate case proceeding. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company s financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, and/or the Company were required to incur additional costs to defend itself, there may be a significant impact on the Company s results of operations in future periods.

On June 17, 2010, Unitil Energy made its annual reconciliation and rate filing with the NHPUC under its restructuring plan, for rates effective August 1, 2010, including reconciliation of prior year costs and revenues. This matter remains pending.

Northern Utilities On November 21, 2008, the MPUC issued an order approving a settlement agreement resolving a number of Notices of Probable Violation (NOPVs) of certain safety related procedures and rules by Northern Utilities. Under the Settlement, Northern Utilities will incur total expenditures of approximately $3.8 million for safety related improvements to Northern s distribution system to ensure compliance with the relevant state and federal gas safety laws, for which no rate recovery will be allowed. These compliance costs were accrued by Northern Utilities prior to the acquisition date and the remaining amount on the Company s balance sheet at June 30, 2010 was $2.3 million.

On June 27, 2008 the MPUC opened an investigation of Northern Utilities cast iron pipe replacement activities and the benefits of an accelerated replacement program for cast iron distribution pipe remaining in portions of Northern Utilities Maine service areas. An Agreement resolving this matter, filed on behalf of Northern Utilities, the Maine Office of the Public Advocate, and several state legislator intervenors, was filed with the MPUC on July 6, 2010. Under the Agreement, Northern Utilities will proceed with a comprehensive upgrade and replacement program (the Program), which will provide for the systematic replacement of cast iron, wrought iron and bare steel pipe in Northern Utilities natural gas distribution system in Portland and Westbrook, Maine and the conversion of the system to intermediate pressure. The Agreement establishes the objective of completing the Program by the end of the 2024 construction season. Under the Agreement, the parties agreed to support a cost recovery mechanism that will provide for the timely recovery of prudently-incurred costs of the Program. The features of this cost recovery mechanism will be finalized during Northern Utilities next base rate case proceeding, which is anticipated to be filed in early 2011. On July 7, 2010, the MPUC considered the Agreement during its public deliberation session and voted to approve the Agreement. A written final order of approval has not yet been issued and, as a result, the matter remains pending.

Granite State Gas Transmission, Inc. Base Rate Case Filing On June 29, 2010, Granite filed a base transportation rate increase which would provide for an increase of approximately $3 million in annual revenue with the FERC. This represents Granite s first filing for a rate change since its last general rate case in 1997. The effect of this rate increase would result in an approximate increase of two percent in the total annual bill to an average residential natural gas heating customer served by Northern Utilities. The rate case filing reflects a rate base of $18.3 million, which includes $4.2 million of capital additions to be made through the end of 2010. In addition to its request for new base transportation rates, Granite is seeking FERC approval to implement a capital cost surcharge that would allow Granite to implement a rate surcharge annually to recover projected capital expenditures of approximately $12.7 million during the three-year time period 2011-2013. Granite expects the FERC regulatory process to take approximately six months with a rate order near the beginning of 2011.

NOTE 7 ENVIRONMENTAL MATTERS

UNITIL S ENVIRONMENTAL MATTERS ARE DESCRIBED IN NOTE 7 TO THE FINANCIAL STATEMENTS IN ITEM 8 OF PART II OF UNITIL CORPORATION S FORM 10-K FOR DECEMBER 31, 2009 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 10, 2010.

The Company s past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of June 30, 2010, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Included in Environmental Obligations on the Company s Consolidated Balance Sheet at June 30, 2010 are accrued liabilities totaling $12.0 million related to estimated future clean up costs for permanent remediation of a former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. The amounts recorded do not assume any amounts are recoverable from insurance companies or other third parties. Also included in Environmental Obligations on the Company s Consolidated Balance Sheet at June 30, 2010 are accrued liabilities totaling $2.3 million associated with Northern Utilities environmental remediation obligations for former MGP sites. In addition to the amounts noted above, there are $0.2 million of accrued liabilities in Other Current Liabilities on the Company s Consolidated Balance Sheet at June 30, 2010 associated with Northern Utilities environmental remediation obligations for former MGP sites. Corresponding Regulatory Assets were recorded to reflect that the recovery of these environmental remediation costs is probable through the regulatory process.

NOTE 8 INCOME TAXES

The Company bills its customers sales tax in Massachusetts and Maine and consumption tax in New Hampshire. These taxes are remitted to the appropriate departments of revenue in each state and are excluded from revenues on the Company s Consolidated Statements of Earnings.

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The Company evaluated its tax positions at December 31, 2009 and for the current interim reporting period ended June 30, 2010 in accordance with the FASB Codification, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any unrecognized tax liabilities or assets as defined by the FASB Codification is required. The Company does not have any unrecognized tax positions for which it is reasonably possible that the total amounts recognized will significantly change within the next 12 months. The Company classifies penalty and interest expense related to income tax liabilities as an income tax expense. There are no material interest and penalties recognized in the statement of earnings or accrued on the balance sheet.

The Company remains subject to examination by Federal, Massachusetts and New Hampshire tax authorities for the tax periods ended December 31, 2006; December 31, 2007; and December 31, 2008. Income tax filings for the year ended December 31, 2009 have been extended until September 15, 2010. In its Federal Income Tax return filings for the year ended December 31, 2008, the Company recognized net operating loss (NOL) carrybacks against its Federal Income Tax returns for the years ended December 31, 2006 and 2007 in the amounts of $5.0 million and $6.7 million, respectively. These NOL carrybacks resulted in a refund to the Company of $4.0 million which was received in November 2009. According to Internal Revenue Code rules, NOL refunds in excess of $2.0 million fall under the jurisdiction of the Joint Committee of Congress (Joint Committee) and are subject to review by the Internal Revenue Service (IRS) and attorneys of the Joint Committee. As a result, on December 30, 2009, the Company received notice that its Federal Income Tax return filings for the years ended December 31, 2006, December 31, 2007, and December 31, 2008 are under examination by the IRS. The IRS is currently performing fieldwork as part of their audit procedures. Currently, the Company believes that the ultimate resolution of this examination will not result in a material adverse effect to the Company s financial position or results of operations.

NOTE 9 RETIREMENT BENEFIT OBLIGATIONS

The Company co-sponsors the Unitil Corporation Retirement Plan (Pension Plan), the Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan), and the Unitil Corporation Supplemental Executive Retirement Plan (SERP) to provide certain pension and postretirement benefits for its retirees and current employees. Please see Note 9 to the Consolidated Financial Statements in the Company s Form 10-K for the year ended December 31, 2009 as filed with the SEC on February 10, 2010 for additional information regarding these plans.

The following table includes the key weighted average assumptions used in determining the Company s benefit plan costs and obligations:

	2010	**2009**
Used to Determine Plan Costs		
Discount Rate	**5.75%**	6.25%
Rate of Compensation Increase	**3.50%**	3.50%
Expected Long-term rate of return on plan assets	**8.50%**	8.50%
Health Care Cost Trend Rate Assumed for Next Year	**7.50%**	8.00%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	**2017**	2017

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The following tables provide the components of the Company s Retirement plan costs ($000 s):

	Pension Plan		PBOP Plan		SERP	
Three Months Ended June 30,	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Service Cost	**$ 652**	$ 571	**$ 366**	$ 357	**$ 71**	$ 54
Interest Cost	**1,115**	1,074	**504**	579	**57**	45
Expected Return on Plan Assets	**(1,046)**	(1,108)	**(149)**	(89)		
Prior Service Cost Amortization	**64**	66	**394**	428	**1**	(1)
Transition Obligation Amortization			**6**	5		
Actuarial Loss Amortization	**602**	399			**33**	18
Sub-total	**1,387**	1,002	**1,121**	1,280	**162**	116
Amounts Capitalized and Deferred	**(481)**	(364)	**(237)**	(442)		
Net Periodic Benefit Cost Recognized	**$ 906**	$ 638	**$ 884**	$ 838	**$ 162**	$ 116

	Pension Plan		PBOP Plan		SERP	
Six Months Ended June 30,	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Service Cost	**$ 1,304**	$ 1,142	**$ 733**	$ 714	**$ 142**	$ 108
Interest Cost	**2,229**	2,147	**1,008**	1,157	**114**	90
Expected Return on Plan Assets	**(2,091)**	(2,216)	**(299)**	(178)		
Prior Service Cost Amortization	**127**	132	**789**	856	**2**	(1)
Transition Obligation Amortization			**11**	10		
Actuarial Loss Amortization	**1,203**	798			**66**	36
Sub-total	**2,772**	2,003	**2,242**	2,559	**324**	233
Amounts Capitalized and Deferred	**(1,103)**	(646)	**(587)**	(800)		
Net Periodic Benefit Cost Recognized	**$ 1,669**	$ 1,357	**$ 1,655**	$ 1,759	**$ 324**	$ 233

Employer Contributions

On August 17, 2006, the Pension Protection Act of 2006 (PPA) was signed into law. Included in the PPA were new minimum funding rules which went into effect for plan years beginning in 2008. The funding target was 100% of a plan s liability (as determined under the PPA) with any shortfall amortized over seven years, with lower (92% 100%) funding targets available to well-funded plans during the transition period. Due to the significant declines in the valuation of capital markets during 2008, the Worker, Retiree, and Employer Recovery Act of 2008 (Recovery Act) was signed into law on December 23, 2008. Included in the Recovery Act are temporary modifications to the minimum funding rules set forth in the PPA such that all plans, except those that were subject to deficit reduction contribution requirements in 2007, are allowed to amortize any shortfall from the lower funding targets, rather than the 100% target, for the 2008 2010 plan years. This did not affect the Company s Pension Plan in 2009 as its Pension Plan was 94% funded under the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) as of January 1, 2008 and met the exemption from the shortfall amortization. As of June 30, 2010, the Company had made $1.8 million of contributions to the Pension Plan in 2010. The Company presently anticipates contributing an additional $2.7 million to fund its Pension Plan in 2010.

As of June 30, 2010, the Company had made $1.7 million and $26,000 of contributions to the PBOP and SERP Plans, respectively, in 2010. The Company presently anticipates contributing an additional $1.8 million and $27,000 to the PBOP and SERP Plans, respectively, in 2010.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to the Interest Rate Risk and Market Risk sections of Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (above).

Item 4. Controls and Procedures

As of the end of the quarter covered by this Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company required to be included in the Company s periodic SEC filings.

There have been no changes in the Company s internal controls over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter covered by this Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company s internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. Certain specific matters are discussed in Notes 6 and 7 to the Consolidated Financial Statements. In the opinion of Management, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company s financial position.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company s Form 10-K for the year-ended December 31, 2009 as filed with the SEC on February 10, 2010.

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

There were no sales of unregistered equity securities by the Company for the fiscal period ended June 30, 2010.

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Company on March 25, 2010, the Company will periodically repurchase shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors annual retainer. There is no pool or maximum number of shares related to these purchases; however, the trading plan will automatically terminate when $80,700 in value of shares have been purchased, or, if sooner, on March 25, 2011.

The Company may suspend or terminate this trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws.

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The Company s repurchases are shown in the table below for the monthly periods noted:

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
4/1/10	4/30/10			
5/1/10	5/31/10			
6/1/10	6/30/10	371	$ 19.91	371
Total		371	$ 19.91	371

Item 5. Other Information

On July 27, 2010, the Company issued a press release announcing its results of operations for the three- and six-month periods ended June 30, 2010. The press release is furnished with this Quarterly Report on Form 10-Q as Exhibit 99.1.

Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description of Exhibit	Reference
11	Computation in Support of Earnings Per Weighted Average Common Share	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.3	Certification of Chief Accounting Officer Pursuant to Rule 13a-14 of the Exchange Act, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certifications of Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith
99.1	Unitil Corporation Press Release Dated July 27, 2010 Announcing Earnings For the Quarter Ended June 30, 2010.	Filed herewith

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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.

	UNITIL CORPORATION (Registrant)
Date: July 27, 2010	/s/ Mark H. Collin Mark H. Collin Chief Financial Officer
Date: July 27, 2010	/s/ Laurence M. Brock Laurence M. Brock Chief Accounting Officer

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EXHIBIT INDEX

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