UNITIL CORP
Form 10-Q
July 24, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2009

Commission File Number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire	**02-0381573**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire	**03842-1720**
(Address of principal executive office)	**(Zip Code)**

Registrant s telephone number, including area code: (603) 772-0775

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

Indicate by check mark 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (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 Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at July 23, 2009
Common Stock, No par value	**10,816,882 Shares**

UNITIL CORPORATION AND SUBSIDIARY COMPANIES

FORM 10-Q

For the Quarter Ended June 30, 2009

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PART I. FINANCIAL INFORMATION

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

OVERVIEW

Unitil Corporation (Unitil or the Company) is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the Federal Energy Regulatory Commission (the FERC) under the Energy Policy Act of 2005.

Unitil s principal business is the local distribution of electricity and natural gas throughout its service territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly owned distribution utilities: (i) Unitil Energy Systems, Inc. (Unitil Energy), which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the city of Concord, New Hampshire; (ii) Fitchburg Gas and Electric Light Company (Fitchburg), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and (iii) Northern Utilities, Inc. (Northern Utilities), which provides natural gas service in southeastern New Hampshire, including the city of Portsmouth, and portions of southern and central Maine, including the city of Portland. In addition, Unitil is the parent company of Granite State Gas Transmission, Inc. (Granite State), an interstate natural gas transmission pipeline company that principally provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory.

The Company s distribution utilities serve approximately 100,300 electric customers and 69,300 natural gas customers in their service territory. The Company s distribution utilities are local pipes and wires operating companies and, combined with Granite State, had an investment in Net Utility Plant of $426.8 million at June 30, 2009. The Company does not own or operate electric generating facilities or major transmission facilities and substantially all of the Company s utility assets are dedicated to the local delivery of electricity and natural gas to its customers. Substantially all of Unitil s revenue and earnings are derived from regulated utility operations.

On December 1, 2008, Unitil purchased (i) all of the outstanding capital stock of Northern Utilities from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State 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). Bay State is a wholly owned subsidiary of NiSource. The aggregate purchase price for the Acquisitions was $160 million in cash, plus an additional working capital adjustment of $49.2 million, including approximately $30.0 million of natural gas storage inventory. To finance the Acquisitions and recapitalize Northern Utilities and Granite State, the Company issued additional equity and debt.

A fifth wholly owned subsidiary, Unitil Power Corp. (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 substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

The Company also has three other wholly owned subsidiaries: Unitil Service Corp. (Unitil Service); Unitil Realty Corp. (Unitil Realty); and Unitil Resources, Inc. (Unitil Resources). Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply 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. Unitil Resources is the Company s wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly owned by Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

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RATES AND REGULATION

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 in regards to certain bookkeeping, accounting and reporting requirements. Unitil s utility operations related to wholesale and interstate energy business activities are also regulated by FERC. Unitil s distribution utilities are subject to regulation by the applicable state public utility commissions, in regards to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC); Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and the Maine Public Utilities Commission (MPUC). Because Unitil s primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company s operations and financial position.

Unitil s distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil s distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, Unitil s customers have the opportunity to purchase their electricity or natural gas supplies from third party suppliers. A majority of Unitil s largest commercial and industrial (C&I) customers purchase their electric and natural gas supplies from third party suppliers. However, most residential and small customers continue to purchase their electric and natural gas supplies through Unitil s distribution utilities. Unitil s distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

The regulatory process in both New Hampshire and Maine, in connection with those states approvals of the Acquisitions, included the negotiation and filing of settlement agreements reflecting commitments by Unitil with respect to Northern Utilities rates, customer service and operations. The settlement agreements were separately negotiated and filed in each state but reflect a number of common features. For additional discussion, please refer to Unitil s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 18, 2009.

CAUTIONARY STATEMENT

This report and the documents the Company incorporates by reference into this report contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company s future operations, are forward-looking statements.

These statements include declarations regarding the Company s and its management s beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, estimate potential or continue or the negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Part II, Item 1A (Risk Factors) and the following:

- The Company s ability to integrate the business, operations and personnel of Northern Utilities and Granite State and to achieve the estimated potential synergy savings attributable to the Acquisitions;
- The Company s ability to retain existing customers and gain new customers;
- Variations in weather;
- Major storms;

Changes in the regulatory environment;

Customers preferences on energy sources;

Interest rate fluctuation and credit market concerns;

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General economic conditions, including recent distress in the financial markets that has had an adverse impact on the availability of credit and liquidity resources generally and could jeopardize certain of the Company s counterparty obligations, including those of Unitil s insurers and financial institutions;

Fluctuations in supply, demand, transmission capacity and prices for energy commodities;

Increased competition; and

Customers performance under multi-year energy brokering contracts.

Many of these risks are beyond the Company s control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the two fiscal periods ended June 30, 2009 and June 30, 2008 and should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Part I, Item 1 of this report.

As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company expects that consolidated results of operations in current and future reporting periods will reflect to a greater degree the seasonal nature of the natural gas business. Specifically, the Company expects consolidated results of operations will be positively affected during the first and fourth quarters, and negatively affected during the second and third quarters of current and future reporting years.

Earnings Overview

The Company s Earnings Applicable to Common Shareholders was $0.2 million for the second quarter of 2009, compared to earnings of $1.6 million for the second quarter of 2008. Earnings per common share (EPS) were $0.03 for the three months ended June 30, 2009 compared with $0.28 in the second quarter of 2008. For the six months ended June 30, EPS were $1.10 for 2009 compared to $0.85 for 2008, an increase of $0.25 per share, or 29%, reflecting the positive impact from the acquisitions of Northern Utilities and Granite State.

Earnings for the second quarter of 2009 reflect the greater degree to which the seasonal nature of the natural gas business now affects the Company s earnings as a result of the acquisitions of Northern Utilities and Granite State, as discussed above. Earnings in the second quarter reflect higher gas utility sales margins offset by lower electric utility sales margins and higher operating, depreciation and interest costs in the quarter as well as a higher number of average shares outstanding year over year, discussed below.

Natural gas sales margin increased $8.4 million and $26.5 million in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. These increases primarily reflect the contribution by Northern Utilities, the Company s recently acquired local gas distribution utility. Natural gas sales in the six month period ended June 30, 2009 reflect a colder winter heating season this year. Average winter temperatures in the Company s service territories were 6.4% colder than last year.

Electric sales margin decreased $1.6 million and $0.3 million in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008, reflecting lower sales volumes. Total electric kilowatt-hour (kWh) sales decreased 6.8% and 5.7% in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008 due to lower average usage by our customers reflecting the continued regional economic slowdown.

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Total Operation & Maintenance (O&M) expenses increased $5.0 million and $10.7 million for the three and six months ended June 30, 2009, respectively, compared to the same period in 2008. The addition of Northern Utilities and Granite State to consolidated operating results in 2009 accounted for $4.3 million of the increase in the six month period. For the six month period, in addition to the increases due to the acquisition of Northern Utilities and Granite State, higher professional fees expense of $1.9 million, primarily related to the December ice storm discussed below, higher compensation and employee benefit expenses of $0.6 million and higher utility operating costs of $1.1 million contributed to the increase in O&M expenses. The increase in O&M expenses for the six month period also reflects higher insurance costs in 2009 compared to the same period in 2008, due to the receipt of a $2.8 million insurance settlement in 2008.

Depreciation, Amortization, Taxes and Other expenses increased $2.1 million and $7.9 million in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The increases primarily reflect the addition of Northern Utilities and Granite State to consolidated operating results in 2009, and higher depreciation on normal utility plant additions partially offset by lower amortization on natural gas inventory carrying costs.

Interest Expense, Net increased $1.4 million and $3.6 million in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. These increases are primarily due to the addition of Northern Utilities and Granite State, reflecting the issuance of long-term notes by Northern Utilities and Granite State in December 2008. In addition, these increases in Interest Expense, Net reflect higher average borrowings in the current periods.

Usource, our non-regulated energy brokering business, recorded revenues of $1.1 million and $2.2 million in the three and six month periods ended June 30, 2009, respectively, increases of $0.3 million and $0.4 million over the comparable periods of 2008. Usource s revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

On December 11 and 12, 2008, a severe ice storm struck the New England region, creating extended power outages for many residents of Massachusetts and New Hampshire, including Unitil s electric customers in New Hampshire and the greater Fitchburg, Massachusetts service territory. Based on its preliminary assessment, the Company has accrued and deferred, excluding capital construction expenditures, approximately $12.5 million in costs for the repair and replacement of electric distribution systems damaged during the storm. The amount and timing of the cost recovery of these storm restoration expenditures will be determined in future regulatory proceedings. 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.

Between December 2008 and June 2009, the Company issued and sold 4,970,000 shares of its common stock, including its underwriters excercise of overallotment options to purchase an additional 570,000 shares, at a price of $20.00 per share in registered public offerings. The Company used net proceeds of $93.1 million from these offerings (i) to repay all amounts outstanding under the bridge credit facility that the Company used to partially finance the acquisition of Northern Utilities and Granite State which closed on December 1, 2008, and (ii) for other general corporate purposes, including capital contributions to Unitil s distribution utilities and repayment of short-term debt. See Note 4. Overall, the positive results of operations and net income are reflected over a higher number of average shares outstanding year over year.

In 2008, Unitil s annual common dividend was $1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil s common stock. At its January, 2009, March, 2009 and June, 2009 meetings, the Unitil Board of Directors declared quarterly dividends on the Company s common stock of $0.345 per share.

A more detailed discussion of the Company s results of operations for the three and six months ended June 30, 2009 and a period-to-period comparison of changes in financial position are presented below.

Balance Sheet

The Company s Total Assets increased by $230.9 million as of June 30, 2009 compared to June 30, 2008. The increase in Total Assets was primarily due to the inclusion of the acquisitions of Northern Utilities and Granite State and to capital expenditures related to Unitil Energy s and Fitchburg s electric and gas distribution systems.

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The Company s Total Capitalization increased by $185.6 million as of June 30, 2009 compared to June 30, 2008 reflecting the issuance of common shares by the Company as part of its financing of the acquisitions of Northern Utilities and Granite State (See Note 4 to the accompanying Consolidated Financial Statements) and the issuance and sale of Senior Unsecured Notes by Northern Utilities and Granite State (See Note 5 to the accompanying Consolidated Financial Statements). The Company s Total Liabilities increased $45.3 million primarily due to the acquisitions of Northern Utilities and Granite State.

Gas Sales, Revenues and Margin

Therm Sales Overall, Unitil s total therm sales of natural gas increased in the three and six month periods ended June 30, 2009 compared to the same periods in 2008. These increases primarily reflect the contribution of sales by Northern Utilities. Excluding the contribution to sales by Northern Utilities, total therm sales of natural gas decreased 9.7% in the three months ended June 30, 2009 compared to the same period in 2008 and increased 1.1% in the six months ended June 30, 2009 compared to the same period in 2008. The increase in the six month period ended June 30, 2009 reflects a colder winter heating season this year. Average winter temperatures in the Company s service territories were 6.4% colder than last year. The lower sales in the three month period ended June 30, 2009 reflect energy conservation and lower usage of natural gas by C&I customers for production operations.

The following table details total firm therm sales for the three and six months ended June 30, 2009 and 2008, by major customer class:

Therm Sales (millions) (a)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	**2008**	**Change**	**% Change**	**2009**	**2008**	**Change**	**% Change**
Residential	**6.9**	2.1	4.8	228.6%	**26.2**	6.9	19.3	279.7%
Commercial / Industrial	**28.5**	4.1	24.4	595.1%	**86.6**	10.9	75.7	694.5%
Total	**35.4**	6.2	29.2	471.0%	**112.8**	17.8	95.0	533.7%

(a) 2009 Therm Sales include Northern Utilities, acquired on December 1, 2008.

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenues and Sales Margin for the three and six months ended June 30, 2009 and 2008:

Gas Operating Revenues and Sales Margin (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	**2008**	**$ Change**	**% Change(1)**	**2009**	**2008**	**$ Change**	**% Change(1)**
Gas Operating Revenue:								
Residential	**$ 9.6**	$ 3.5	$ 6.1	92.4%	**$ 40.0**	$ 11.6	$ 28.4	135.9%
Commercial / Industrial	**13.8**	3.1	10.7	162.1%	**55.8**	9.3	46.5	222.5%
Total Gas Operating Revenue	**$ 23.4**	$ 6.6	$ 16.8	254.5%	**$ 95.8**	$ 20.9	$ 74.9	358.4%
Cost of Gas Sales:								
Purchased Gas	**$ 11.8**	$ 3.9	$ 7.9	119.7%	**$ 60.2**	$ 12.9	$ 47.3	226.3%
Conservation & Load Management	**0.6**	0.1	0.5	7.6%	**1.2**	0.1	1.1	5.3%
Gas Sales Margin	**$ 11.0**	$ 2.6	$ 8.4	127.3%	**$ 34.4**	$ 7.9	$ 26.5	126.8%

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

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Total Gas Operating Revenues increased $16.8 million and $74.9 million in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. These increases primarily reflect the natural gas sales for Northern Utilities. Total Gas Operating Revenues include the recovery of the cost of sales, which are recorded as Purchased Gas and Conservation & Load Management (C&LM) in Operating Expenses. The increase in Total Gas Operating Revenues in the second quarter of 2009 reflects higher Purchased Gas costs of $7.9 million, higher C&LM revenues of $0.5 million and higher gas sales margin of $8.4 million. The increase in Total Gas Operating Revenues in the first six months of 2009 reflects higher Purchased Gas costs of $47.3 million, higher C&LM revenues of $1.1 million and higher gas sales margin of $26.5 million.

The Purchased Gas and C&LM component of Gas Operating Revenues increased $8.4 million and $48.4 million in the three and six month periods ended June 30, 2009 compared to the same periods in 2008. These increases primarily reflect the natural gas sales for Northern Utilities. Purchased Gas revenues include the recovery of the cost of gas supply as well as other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Natural gas sales margin increased $8.4 million and $26.5 million in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. These increases primarily reflect the contribution by Northern Utilities.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales Unitil s total electric kilowatt (kWh) sales decreased 6.8% and 5.7% in the three and six month periods ended June 30, 2009, respectively compared to the same periods in 2008. Electric kWh sales to residential customers in the three and six month periods ended June 30, 2009 decreased 4.3% and 2.5%, respectively, compared to the same periods in 2008 while sales to C&I customers decreased 8.2% and 7.7%, respectively, in those periods compared to the same periods in 2008. The lower kWh sales in 2009 compared to 2008 reflect lower average usage by our customers due to the continued regional economic slowdown.

The following table details total kWh sales for the three and six months ended June 30, 2009 and 2008 by major customer class:

kWh Sales (millions)

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2009	**2008**	**Change**	**% Change**	**2009**	**2008**	**Change**	**% Change**
Residential	**141.1**	147.5	(6.4)	(4.3%)	**321.7**	329.9	(8.2)	(2.5%)
Commercial / Industrial	**233.2**	254.0	(20.8)	(8.2%)	**475.3**	515.1	(39.8)	(7.7%)
Total	**374.3**	401.5	(27.2)	(6.8%)	**797.0**	845.0	(48.0)	(5.7%)

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Electric Operating Revenues and Sales Margin The following table details total Electric Operating Revenues and Sales Margin for the three and six month periods ended June 30, 2009 and 2008:

Electric Operating Revenues and Sales Margin (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	**2008**	**$ Change**	**% Change[(1)]**	**2009**	**2008**	**$ Change**	**% Change[(1)]**
Electric Operating Revenue:								
Residential	**$ 23.3**	$ 25.9	$ (2.6)	(5.0%)	**$ 56.4**	$ 56.2	$ 0.2	0.2%
Commercial / Industrial	**23.7**	26.1	(2.4)	(4.6%)	**52.7**	52.4	0.3	0.3%
Total Electric Operating Revenue	**$ 47.0**	$ 52.0	$ (5.0)	(9.6%)	**$ 109.1**	$ 108.6	$ 0.5	0.5%
Cost of Electric Sales:								
Purchased Electricity	**$ 33.4**	$ 36.8	$ (3.4)	(6.5%)	**$ 80.6**	$ 79.7	$ 0.9	0.9%
Conservation & Load Management	**0.8**	0.8			**1.3**	1.4	(0.1)	(0.1%)
Electric Sales Margin	**$ 12.8**	$ 14.4	$ (1.6)	(3.1%)	**$ 27.2**	$ 27.5	$ (0.3)	(0.3%)

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

Total Electric Operating Revenues, decreased by $5.0 million, or 9.6%, and increased by $0.5 million, or 0.5%, in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. Total Electric Operating Revenues include the recovery of costs 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 2009 reflects lower Purchased Electricity costs of $3.4 million and lower electric sales margin of $1.6 million. The increase in Total Electric Operating Revenues in the first six months of 2009 reflects higher Purchased Electricity costs of $0.9 million, partially offset by lower C&LM revenues of $0.1 million and lower electric sales margin of $0.3 million.

The Purchased Electricity and C&LM component of Total Electric Operating Revenues decreased $3.4 million, or 6.5%, and increased a net $0.8 million, or 0.8%, in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. The decrease in the three month period reflects lower sales volumes and lower electric commodity prices. The increase in the six month period reflects higher electric commodity prices and a decrease in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by lower sales volumes and lower spending on energy efficiency and conservation programs. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin decreased $1.6 million and $0.3 million in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. The decrease in the three month period reflects lower sales volumes. The decrease in the six month period reflects lower sales volumes partially offset by higher electric base rates implemented in March 2008.

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Operating Revenue - Other

The following table details total Other Revenue for the three and six months ended June 30, 2009 and 2008:

Other Revenue (000 s)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	**2008**	**$ Change**	**% Change**	**2009**	**2008**	**$ Change**	**% Change**
Other	**$ 1.1**	$ 0.8	$ 0.3	37.5%	**$ 2.2**	$ 1.8	$ 0.4	22.2%
Total Other Revenue	**$ 1.1**	$ 0.8	$ 0.3	37.5%	**$ 2.2**	$ 1.8	$ 0.4	22.2%

Total Other Revenue increased $0.3 million, or 37.5% and $0.4 million, or 22.2%, in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. These increases were the result of growth in 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 $7.9 million and $47.3 million in the three and six months ended June 30, 2009, respectively, compared to the same periods in 2008. These increases primarily reflect the natural gas supply purchases for Northern Utilities, which were not included in the prior year period. The Company recovers the 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 $3.4 million, or 9.2%, and increased $0.9 million, or 1.1%, in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. The decrease in the three month period primarily reflects lower sales volumes and lower electric commodity prices. The increase in the six month period reflects higher electric commodity prices and a decrease in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by lower sales volumes. The Company recovers the 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 increased $5.0 million and $10.7 million for the three and six months ended June 30, 2009, respectively, compared to the same period in 2008. The addition of Northern Utilities and Granite State to consolidated operating results in 2009 accounted for $1.9 million and $4.3 million of the increases in the three and six month periods, respectively. For the three month period, in addition to the increases due to the acquisition of Northern Utilities and Granite State, higher professional fees of $2.2 million, primarily related to the internal review and legal and regulatory proceedings associated with the ice storm of December 2008, higher compensation and employee benefit expenses of $0.2 million, reflecting normal annual increases, and higher utility operating costs of $0.7 million contributed to the increase in O&M expenses. For the six month period, in addition to the increases due to the acquisition of Northern Utilities and Granite State, higher professional fees of $1.9 million, primarily related to the internal review and legal and regulatory proceedings associated with the ice storm of December 2008, higher compensation and employee benefit expenses of $0.6 million and higher utility operating costs of $1.1 million contributed to the increase in O&M expenses. The increase in the six month period also reflects higher insurance costs in 2009 compared to 2008, due to the receipt of a $2.8 million insurance settlement in 2008.

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

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electricity more efficiently and thereby decrease their energy costs. 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 90% of these costs are related to electric operations and 10% to gas operations.

Total C&LM expenses decreased $0.5 million, or 55.6% and $1.0 million, or 66.7%, in the three and six month periods ended June 30, 2009 compared to the same periods in 2008. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Depreciation, Amortization and Taxes

Depreciation and Amortization Depreciation and Amortization expense increased $1.9 million, or 42.2% and $3.0 million, or 30.9% in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. These increases primarily reflect the addition of Northern Utilities and Granite State to consolidated operating results in 2009, and higher depreciation on normal utility plant additions partially offset by lower amortization on natural gas inventory carrying costs.

Local Property and Other Taxes Local Property and Other Taxes increased $0.8 million and $2.1 million in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2008. These increases primarily reflect the addition of Northern Utilities and Granite State to consolidated operating results in 2009, and higher local property tax rates on higher levels of utility plant in service.

Federal and State Income Taxes Federal and State Income Taxes were lower by $0.6 million in the three month period ended June 30, 2009 compared to the same period in 2008 reflecting lower pre-tax earnings. Federal and State Income Taxes were higher by $2.9 million in the six month period ended June 30, 2009 compared to the same period in 2008 reflecting higher pre-tax earnings.

Other Non-operating Expenses (Income)

Other Non-operating Expenses were flat in the three month period ended June 30, 2009 compared to the same period in 2008. For the six month period ended June 30, 2009, Other Non-operating Expenses decreased $0.1 million compared to the same period in 2008. This change reflects an adjustment of $0.1 million recorded in the first quarter of 2008 in conjunction with the Company s approved electric base distribution rate increase in Massachusetts.

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. Certain reconciling rate mechanisms used by the Company s distribution 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. 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.

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Interest Expense, Net (Millions)	Three Months Ended June 30, 2009	2008	Change	Six Months Ended June 30, 2009	2008	Change
Interest Expense						
Long-term Debt	**$ 4.5**	$ 2.9	$ 1.6	**$ 9.1**	$ 5.7	$ 3.4
Short-term Debt	**0.6**	0.2	0.4	**1.1**	0.5	0.6
Regulatory Liabilities	**0.1**		0.1	**0.1**	0.1	
Subtotal Interest Expense	**5.2**	3.1	2.1	**10.3**	6.3	4.0
Interest (Income)						
Regulatory Assets	**(0.6)**	(0.7)	0.1	**(1.3)**	(1.3)	
AFUDC and Other	**(0.9)**	(0.1)	(0.8)	**(0.5)**	(0.1)	(0.4)
Subtotal Interest (Income)	**(1.5)**	(0.8)	(0.7)	**(1.8)**	(1.4)	(0.4)
Total Interest Expense, Net	**$ 3.7**	$ 2.3	$ 1.4	**$ 8.5**	$ 4.9	$ 3.6

On December 3, 2008, Northern Utilities completed the sale of $80 million of Senior Unsecured Notes, through a private placement to institutional investors. The debt financing included $50 million of 30-year notes with a coupon rate of 7.72% and $30 million of 10-year notes with a coupon rate of 6.95%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil s acquisition of Northern Utilities.

On December 15, 2008, Granite State completed the sale of $10 million of Senior Unsecured Notes, through a private placement to institutional investors. The Notes have a term of 10 years maturity and a coupon rate of 7.15%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil s acquisition of Granite State.

Interest Expense, Net increased $1.4 million and $3.6 million in the three and six month periods ended June 30, 2009, respectively, compared to the same periods in 2009. These increases were primarily due to the issuance of the long-term notes, noted above, and higher average borrowings in the current periods, partially offset by lower interest expense related to the repayment of the bank financing facility in the second quarter of 2009. In the second quarter of 2009, the permanent financing of the acquisition was completed and the associated interim financing fees and costs of the acquisition were recognized as part of transaction costs, to be amortized over 10 years, in accordance with the provisions of the regulatory orders approving the acquisitions by the NHPUC and MPUC.

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 unsecured short-term bank credit facilities. 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.

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At June 30, 2009, the Company had $30.6 million in short-term debt outstanding through bank borrowings under its revolving credit agreement. The revolving credit agreement contains customary terms and conditions for credit facilities of this type, including certain financial covenants. As of June 30, 2009, the Company was in compliance with financial covenants contained in the revolving credit agreement.

During the second quarter of 2009, the Company repaid the remaining $39.1 million outstanding under a bank financing facility utilized in connection with the financing of the acquisition of Northern Utilities and Granite State on December 1, 2008.

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company s policy is to limit these guarantees to two years or less. As of June 30, 2009, there were approximately $18.3 million of guarantees outstanding and these guarantees extend through December 31, 2010.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of June 30, 2009, the principal amount outstanding for the 8% Unitil Realty notes was $4.5 million, and the principal amount outstanding for the 7.15% Granite State notes was $10.0 million. The guarantee related to the Granite State notes will terminate if Granite State reorganizes and merges with and into Northern Utilities.

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

On December 1, 2008, the Company acquired Northern Utilities and Granite State. Cash flow results for the first six months of 2009 include the activity for the acquired companies. 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, 2009 compared to the same period in 2008.

	Six Months Ended June 30,	
	2009	**2008**
Cash Provided by Operating Activities	**$ 18.7**	$ 19.8

Cash Provided by Operating Activities Cash Provided by Operating Activities was $18.7 million during the six months ended June 30, 2009, a decrease of $1.1 million over the comparable period in 2008. Cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes increased by $3.6 million as compared to 2008, and sources of cash for working capital increased $11.2 million, primarily related to the funding in 2009 of deferred regulatory charges related to the December ice storm, while all other sources and uses of cash from Operating Activities resulted in a net use of cash of $15.9 million in the first six months of 2009 compared to 2008.

	Six Months Ended June 30,	
	2009	**2008**
Cash (Used in) Investing Activities	**$ (26.1)**	$ (10.2)

Cash (Used in) Investing Activities Cash (Used in) Investing Activities was $26.1 million for the six months ended June 30, 2009, an increase in capital spending of $15.9 million over the comparable period in 2008. Of

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this amount, $7.5 million is related to expenditures for the December 2008 ice storm, and $6.9 million is related to capital expenditures for Northern Utilities.

	Six Months Ended June 30, 2009	2008
Cash Provided by (Used in) Financing Activities	**$ 6.2**	$ (9.9)

Cash Provided by (Used in) Financing Activities Cash Provided by Financing Activities was $6.2 million in the six months ended June 30, 2009. Proceeds from the issuance of Common Stock of $56.2 million primarily reflect the issuance of common stock by the Company through public offerings, as discussed above (See Note 4). Short-term borrowings were reduced by $43.5 million in the first six months of 2009 which included the repayment of the temporary bank credit facility utilized in financing the acquisition of Northern Utilities and Granite State on December 1, 2008. Uses of cash of $5.6 million primarily reflect Unitil s regular quarterly dividend payments on Common and Preferred Stock, and the scheduled repayment of long-term debt.

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 18, 2009.

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 is regulated by the FERC and the NHPUC. Fitchburg is regulated by the FERC and the MDPU. Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company s natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the provisions of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. (SFAS No. 71). In accordance with SFAS No. 71, 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, 2009	June 30, 2008	December 31, 2008
Energy Supply Contract Obligations	**$ 42.8**	$ 62.7	$ 52.7
Deferred Regulatory and Other Charges	**40.9**	28.8	28.3
Generation-related Assets	**0.4**	1.2	0.8
Subtotal Restructuring Related Items	**84.1**	92.7	81.8
Retirement Benefit Obligations	**46.3**	35.2	45.5
Income Taxes	**15.3**	13.8	16.0
Environmental Obligations	**21.4**	11.3	19.7
Other	**10.2**	3.2	10.1
Total Regulatory Assets	**$ 177.3**	$ 156.2	$ 173.1
Less: Current Portion of Regulatory Assets(1)	**24.3**	22.4	26.9
Regulatory Assets - noncurrent	**$ 153.0**	$ 133.8	$ 146.2

(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 SFAS No. 71. If unable to continue to apply the provisions of SFAS No. 71, the Company would be required to apply the provisions of FASB Statement No. 101, Regulated Enterprises Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71. In the Company s opinion, its regulated operations will be subject to SFAS No. 71 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.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans , (SFAS No. 158), an amendment of SFAS No. 87, Employers Accounting for Pensions , SFAS No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, SFAS No. 106, Employers Accounting for Postretirement Benefits other than Pensions and SFAS No. 132(R), Employers Disclosures about Pensions and Other Postretirement Benefits. SFAS No. 158 requires companies to record on their 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, 2008 and 2007, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately $200,000 in the Net Periodic Benefit Cost for the Pension Plan. For the years ended December 31, 2008 and 2007, 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 $675,000 and $690,000, 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 $531,000 and $539,000, respectively. (See Note 9 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. The Company accounts for income tax assets, liabilities and expenses in accordance with FASB Statement No. 109, Accounting for Income Taxes (SFAS No. 109) and under FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FAS 109.

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 SFAS No. 5. SFAS No. 5 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

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events occur or fail to occur. As of June 30, 2009, 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.

LABOR RELATIONS

As of June 30, 2009, 148 of the Company s employees were represented by labor unions. These employees are covered by collective bargaining agreements. Two agreements expire on May 31, 2010, one agreement expires on June 5, 2010 and one agreement expires on March 31, 2012. 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, 2009 and June 30, 2008 were 4.28% and 2.84%, respectively. The average interest rates on the Company s short-term borrowings for the six months ended June 30, 2009 and June 30, 2008 were 4.53% and 3.40%, 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 7 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 8 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, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Operating Revenues				
Gas	**$ 23.4**	$ 6.6	**$ 95.8**	$ 20.9
Electric	**47.0**	52.0	**109.1**	108.6
Other	**1.1**	0.8	**2.2**	1.8
Total Operating Revenues	**71.5**	59.4	**207.1**	131.3
Operating Expenses				
Purchased Gas	**11.8**	3.9	**60.2**	12.9
Purchased Electricity	**33.4**	36.8	**80.6**	79.7
Operation and Maintenance	**12.0**	7.0	**22.4**	11.7
Conservation & Load Management	**1.4**	0.9	**2.5**	1.5
Depreciation and Amortization	**6.4**	4.5	**12.7**	9.7
Provisions for Taxes:				
Local Property and Other	**2.2**	1.4	**5.2**	3.1
Federal and State Income	**0.1**	0.7	**5.4**	2.5
Total Operating Expenses	**67.3**	55.2	**189.0**	121.1
Operating Income	**4.2**	4.2	**18.1**	10.2
Non-Operating Expenses	**0.2**	0.2	**0.2**	0.3
Income Before Interest Expense	**4.0**	4.0	**17.9**	9.9
Interest Expense, Net	**3.7**	2.3	**8.5**	4.9
Net Income	**0.3**	1.7	**9.4**	5.0
Less: Dividends on Preferred Stock	**0.1**	0.1	**0.1**	0.1
Earnings Applicable to Common Shareholders	**$ 0.2**	$ 1.6	**$ 9.3**	$ 4.9
Average Common Shares Outstanding Basic (000 s)	**9,014**	5,736	**8,516**	5,728
Average Common Shares Outstanding Diluted (000 s)	**9,014**	5,741	**8,516**	5,733
Earnings Per Common Share (Basic and Diluted)	**$ 0.03**	$ 0.28	**$ 1.10**	$ 0.85
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, 2009	(UNAUDITED) June 30, 2008	December 31, 2008
ASSETS:			
Utility Plant:			
Electric	**$ 294.1**	$ 272.8	$ 289.0
Gas	**314.5**	69.8	304.2
Common	**27.8**	27.2	30.5
Construction Work in Progress	**13.4**	7.3	17.7
Total Utility Plant	**649.8**	377.1	641.4
Less: Accumulated Depreciation	**223.0**	126.0	218.6
Net Utility Plant	**426.8**	251.1	422.8
Current Assets:			
Cash	**10.3**	4.3	11.5
Accounts Receivable Net of Allowance for Doubtful Accounts of $2.8, $1.3 and $3.0	**30.9**	22.5	39.7
Accrued Revenue	**31.0**	36.6	56.9
Gas Inventory	**8.5**	2.0	31.6
Materials and Supplies	**3.0**	1.9	2.7
Prepayments and Other	**4.1**	2.2	5.9
Total Current Assets	**87.8**	69.5	148.3
Noncurrent Assets:			
Regulatory Assets	**153.0**	133.8	146.2
Other Noncurrent Assets	**26.9**	9.2	15.9
Total Noncurrent Assets	**179.9**	143.0	162.1
TOTAL	**$ 694.5**	$ 463.6	$ 733.2

(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, 2009	June 30, 2008	December 31, 2008
CAPITALIZATION AND LIABILITIES:			
Capitalization:			
Common Stock Equity	**$ 195.9**	$ 100.0	$ 139.5
Preferred Stock	**2.0**	2.0	2.0
Long-Term Debt, Less Current Portion	**249.1**	159.4	249.3
Total Capitalization	**447.0**	261.4	390.8
Current Liabilities:			
Long-Term Debt, Current Portion	**0.4**	0.4	0.4
Accounts Payable	**19.1**	18.2	36.3
Short-Term Debt	**30.6**	12.8	74.1
Energy Supply Contract Obligations	**18.1**	19.9	42.0
Other Current Liabilities	**32.9**	8.8	33.8
Total Current Liabilities	**101.1**	60.1	186.6
Deferred Income Taxes	**29.8**	34.2	31.1
Noncurrent Liabilities:			
Energy Supply Contract Obligations	**27.7**	42.8	34.6
Retirement Benefit Obligations	**71.1**	51.0	67.4
Environmental Obligations	**11.4**	12.0	12.3
Other Noncurrent Liabilities	**6.4**	2.1	10.4
Total Noncurrent Liabilities	**116.6**	107.9	124.7
TOTAL	**$ 694.5**	$ 463.6	$ 733.2

(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, 2009	Six Months Ended June 30, 2008
Operating Activities:		
Net Income	**$ 9.4**	$ 5.0
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	**12.7**	9.7
Deferred Taxes	**(2.6)**	1.2
Changes in Current Assets and Liabilities:		
Accounts Receivable	**8.8**	2.4
Accrued Revenue	**25.9**	(1.5)
Accounts Payable	**(17.2)**	0.6
All other Current Assets and Liabilities	**(4.0)**	0.8
Deferred Regulatory and Other Charges	**(12.2)**	1.7
Other, net	**(2.1)**	(0.1)
Cash Provided by Operating Activities	**18.7**	19.8
Investing Activities:		
Property, Plant and Equipment Additions	**(26.1)**	(10.2)
Cash (Used in) Investing Activities	**(26.1)**	(10.2)
Financing Activities:		
Proceeds From (Repayment of) Short-Term Debt, net	**(43.5)**	(6.0)
Dividends Paid	**(5.6)**	(4.0)
Proceeds from Issuance of Common Stock, net	**56.2**	0.5
Other, net	**(0.9)**	(0.4)
Cash Provided by (Used in) Financing Activities	**6.2**	(9.9)
Net (Decrease) in Cash	**(1.2)**	(0.3)
Cash at Beginning of Period	**11.5**	4.6
Cash at End of Period	**$ 10.3**	$ 4.3
Supplemental Cash Flow Information:		
Interest Paid	**$ 9.7**	$ 6.1
Income Taxes Paid	**$ 0.5**	$ 0.5

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

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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 State), 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 State, an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource, Inc. (NiSource) pursuant to the Stock Purchase Agreement (SPA) dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions).

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 State is a natural gas transportation pipeline, operating 87 miles of underground gas transmission pipeline primarily located in Maine, New Hampshire and Massachusetts. Granite State 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 State 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, 2009 are not necessarily indicative of results to be expected for the year ending December 31, 2009. 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, 2008, as filed with the Securities and Exchange Commission (SEC) on February 18, 2008, for a description of the Company s Basis of Presentation.

As discussed above, the Company acquired Northern Utilities and Granite State on December 1, 2008. Accordingly, the operations of Northern Utilities and Granite State are included in the Company s consolidated financial statements from the date of acquisition, including the three and six months ended June 30, 2009 but not for the three and six months ended June 30, 2008. See Note 11.

As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company expects that consolidated results of operations in future reporting periods will reflect to a greater degree the seasonal nature of natural gas sales by the acquired operating utilities. Accordingly, the Company expects that as a result of the acquisitions, consolidated results of operations will be positively affected during the first and fourth quarters, and negatively affected during the second and third quarters of future reporting years.

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 NYMEX futures that correspond to the associated delivery month. Any gains or losses on the fair value of these derivatives are passed through to ratepayers directly through a regulatory commission approved recovery mechanism. As a result of the ratemaking process, the Company records gains and losses as regulatory liabilities or assets and recognizes such gains or losses in Purchased Gas when recovered in revenues. The Company s Consolidated Balance Sheets include derivative liabilities related to net unrealized losses on futures contracts in Other Current Liabilities and Noncurrent Liabilities which are offset in Accrued Revenues on the Company s Consolidated Balance Sheets.

Reclassifications Based on the Company s analysis certain amounts previously reported have been reclassified to improve the financial statements presentation and to conform to current year presentation, principally including the reclassification of $23.0 million of Noncurrent Assets to Current Assets and $19.9 million of Noncurrent Liabilities to Current Liabilities related to current collections and obligations of Regulatory Assets and Regulatory Liabilities for 2008.

Recently Issued Pronouncements In May 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 165, Subsequent Events , (SFAS No. 165), effective for interim and annual reporting periods ending after June 15, 2009. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS No. 165 and it did not have an impact on the Company s Consolidated Financial Statements. The Company evaluated all events or transactions that occurred after June 30, 2009 up through July 23, 2009. During this period no material subsequent events came to our attention.

On April 9, 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FSG FAS 107-1 also amends Accounting Principles Board Opinion No. 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company has adopted FSP FAS 107-1 and there was no impact on the Company s Consolidated Financial Statements. See Note 5 for relevant disclosures on the fair value of the Company s long-term debt.

On December 30, 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets , (FSP FAS 132(R)-1) to provide guidance on an employers disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by FSP FAS 132(R)-1 are to be provided for fiscal years ending after December 15, 2009. The Company does not expect that the adoption of FSP FAS 132(R)-1 will have an impact on the Company s Consolidated Financial Statements.

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NOTE 2 ACQUISITIONS

As discussed above, on December 1, 2008, the Company purchased (i) all of the outstanding capital stock of Northern Utilities from Bay State and (ii) all of the outstanding capital stock of Granite State from NiSource pursuant to the SPA dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil. The aggregate purchase price for the Acquisitions was $209.2 million, comprised of $160 million in cash, plus an additional working capital adjustment of $49.2 million. The largest component of working capital was approximately $30.0 million of natural gas storage inventory.

The Company accounted for the Acquisitions under the purchase method of accounting for business combinations, in accordance with FASB Statement No. 141, Business Combinations (SFAS No. 141) and SFAS No. 71. Accordingly, the Company recognized its estimate of the bargain purchase price (see Plant Acquisition Adjustment in the table below) at December 1, 2008. The process of valuing the assets, liabilities and transaction, transition and financing costs as a result of the Acquisitions was substantially completed in the second quarter of 2009. As a result, the Company has recognized adjustments to its original estimate of the Plant Acquisition Adjustment (PAA) in the second quarter of 2009.

The adjusted PAA is ($24.2 million), a decrease of $4.1 million from the original estimate of ($28.3 million). The adjusted Transaction and Transition Costs is an increase of $5.4 million over the original estimate, reflecting additional costs to complete the acquisition and financing. Partially offsetting the decrease in the PAA estimate due to the additional Transaction and Transition Costs were subsequent payments, cash settlements between the purchaser and seller and other post-closing adjustments reflecting changes to working capital and Net Utility Plant.

The revised purchase price allocations are as follows:

Purchase Price Allocation

($ Millions)

	December 1, 2008
Equity Purchase Price	$ 160.0
Plus: Working Capital Adjustment	49.2
Aggregate Purchase Price	209.2
Transaction and Transition Costs	13.0
Total Cash Purchase Price	222.2
Allocation To:	
Book Value of Net Utility Plant	(197.0)
Cash Acquired	(6.9)
Accounts Receivable and Other Current Assets	(21.7)
Accrued Revenue	(7.0)
Gas Inventory	(32.3)
Regulatory and Other Noncurrent Assets	(32.8)
Accounts Payable and Other Current Liabilities	20.0
Regulatory Liabilities	31.3
Plant Acquisition Adjustment	**$ (24.2)**

In accordance with settlement agreements between the Company, the New Hampshire Public Utilities Commission (NHPUC) and the Maine Public Utilities Commission (MPUC) regarding the Acquisitions, the Company has agreed (i) not to seek recovery of transaction and transition costs in rates and (ii) for regulatory accounting purposes, to amortize, over a ten year period, the transaction and transition costs co-terminus with the Plant Acquisition Adjustment.

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NOTE 3 DIVIDENDS DECLARED PER SHARE

Declaration Date	Date Paid (Payable)	Shareholder of Record Date	Dividend Amount
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
09/25/08	10/31/08	10/17/08	$0.345
06/19/08	08/15/08	08/01/08	$0.345
03/20/08	05/15/08	05/01/08	$0.345
01/17/08	02/15/08	02/01/08	$0.345

NOTE 4 COMMON STOCK AND PREFERRED STOCK

Common Stock

As of August 21, 2008 the Company s common stock began trading on the New York Stock Exchange and ceased trading on the American Stock Exchange. 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 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 10,816,312, 5,773,452 and 7,791,617 of common shares outstanding at June 30, 2009, June 30, 2008 and December 31, 2008, respectively.

Unitil Corporation Common Stock Offerings On May 27, 2009, the Company issued and sold 2,400,000 shares of its common stock at a price of $20.00 per share in a registered public offering (2009 Offering). As part of the 2009 Offering, the Company granted the underwriters a 30-day option to purchase up to an additional 360,000 shares to cover any over-allotments. The underwriters exercised their over-allotment option and purchased an additional 300,000 shares of the Company s common stock in June 2009. The Company s net increase to Common Equity and Cash proceeds from the 2009 Offering, including the over-allotment were approximately $51.2 million (after payment of the underwriting discount, but excluding estimated offering expenses) and were used (i) to repay all amounts outstanding under the bridge credit facility (approximately $39.1 million) that the Company used to partially finance the acquisition of Northern Utilities and Granite State which closed on December 1, 2008, and related transaction costs and expenses and (ii) for other general corporate purposes, including capital contributions to Unitil s distribution utilities and repayment of short-term debt.

On December 15, 2008, the Company issued and sold 2,000,000 shares of its common stock at a price of $20.00 per share in a registered public offering (2008 Offering). The Company repaid $36.8 million outstanding under the bank financing facility for the Company s acquisitions of Northern Utilities and Granite State with the net proceeds from the sale and issuance of its common stock.

As part of the 2008 Offering, the Company granted the underwriters a 30-day option to purchase up to an additional 300,000 shares to cover any over-allotments. The underwriters exercised their over-allotment option and purchased an additional 270,000 shares of the Company s common stock in January 2009. The Company s net increase to Common Equity and Cash proceeds from the over-allotment sales were approximately $5.1 million (after payment of the underwriting discount, but excluding estimated offering expenses) and were used to repay a portion of the bank financing for the Company s acquisitions of Northern Utilities and Granite State and to repay other short-term indebtedness. The Company recorded the issuance of the 270,000 shares, the sale proceeds and the increase in Common Equity in January 2009.

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Dividend Reinvestment and Stock Purchase Plan 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.

During the first six months of 2008, the Company sold 14,889 shares of its Common Stock, at an average price of $27.76 per share, in connection with its Dividend Reinvestment and Stock Purchase Plan and its 401(k) plans. Net proceeds of approximately $413,000 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 17, 2009, 32,260 restricted shares were issued in conjunction with the Plan with an aggregate market value at the date of issuance of $661,007. Compensation expense associated with shares issued under the Plan is recognized ratably as the shares vest and was $0.3 million and $0.2 million for the six months ended June 30, 2009 and 2008, respectively. At June 30, 2009, there was approximately $1.4 million of total unrecognized compensation cost related to non-vested shares under the Plan which is expected to be recognized over approximately 3.1 years as the shares vest. During the six months ended June 30, 2009, 12,459 restricted shares vested. As of June 30, 2009 there were 52,019 unvested restricted shares.

Preferred Stock

Details on preferred stock at June 30, 2009, June 30, 2008 and December 31, 2008 are shown below:

(Amounts in Millions)

	June 30, 2009	**June 30, 2008**	**December 31, 2008**
Preferred Stock			
UES Preferred Stock, Non-Redeemable, Non-Cumulative:			
6.00% Series, $100 Par Value	**$ 0.2**	$ 0.2	$ 0.2
FG&E 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 5 LONG-TERM DEBT, CREDIT ARRANGEMENTS AND GUARANTEES

Long-Term Debt

Details on long-term debt at June 30, 2009, June 30, 2008 and December 31, 2008 are shown below ($ Millions):

	June 30, 2009	June 30, 2008	December 31, 2008
Unitil Corporation Senior Notes:			
6.33% Notes, Due May 1, 2022	**$ 20.0**	$ 20.0	$ 20.0
Unitil Energy Systems, Inc.:			
First Mortgage Bonds:			
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, Series A, Due December 3, 2018	**30.0**		30.0
7.72% Senior Notes, Series B, Due December 3, 2038	**50.0**		50.0
Granite State Senior Notes:			
7.15% Senior Notes, Due December 15, 2018	**10.0**		10.0
Unitil Realty Corp.:			
Senior Secured Notes:			
8.00% Notes, Due Through August 1, 2017	**4.5**	4.8	4.7
Total Long-Term Debt	**249.5**	159.8	249.7
Less: Current Portion	**0.4**	0.4	0.4
Total Long-term Debt, Less Current Portion	**$ 249.1**	$ 159.4	$ 249.3

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. In estimating the fair value of the Company s long-term debt, the assumed market yield reflects the Moody s Baa Utility Bond Average Yield for June 2009. The carrying value of the Company s long-term debt at June 30, 2009 is $249.5 million. The fair value of the Company s long-term debt at June 30, 2009 is estimated to be approximately $247.4 million, before considering any costs, including prepayment costs, 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 December 3, 2008, Northern Utilities completed the sale of $80 million of Senior Unsecured Notes, through a private placement to institutional investors. The debt financing included $50 million of 30-year notes with a coupon rate of 7.72% and $30 million of 10-year notes with a coupon rate of 6.95%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil s acquisition of Northern Utilities.

On December 15, 2008, Granite State completed the sale of $10 million of Senior Unsecured Notes, through a private placement to institutional investors. The Notes have a term of 10 years maturity and a coupon rate of 7.15%. The Company used the proceeds from the long-term Note financing to repay a portion of the bank financing for Unitil s acquisition of Granite State.

Credit Arrangements

At June 30, 2009, the Company had $30.6 million in short-term debt outstanding through bank borrowings under its revolving credit agreement. The revolving credit agreement also contains customary terms and conditions for credit facilities of this type, including certain financial covenants. As of June 30, 2009, the Company was in compliance with financial covenants contained in the revolving credit agreement.

On November 1, 2008, Northern Utilities entered into a gas storage management agreement pursuant to which (i) Northern Utilities released certain pipeline and storage capacity to an asset manager from November 1, 2008 through April 30, 2009 and (ii) the asset manager financed inventories associated with the released storage capacity from Northern Utilities contemporaneously with the closing of the Acquisitions. Pursuant to the agreement, Northern Utilities repurchased the storage inventory over the course of the 2008/2009 winter heating season at the same price initially paid by the asset manager. Effective May 1, 2009, Northern entered into a subsequent gas storage management agreement which provides for refilling the storage inventory between May 1, 2009 and October 31, 2009. Similar to the prior agreement, the asset manager is maintaining the cost of the inventory. On October 31, 2009, at the end of the refill period, Northern will purchase the inventory associated with this storage asset. There was $3.1 million and $24.0 million outstanding at June 30, 2009 and December 31, 2008, respectively, related to these 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, 2009 there are $18.3 million of guarantees outstanding and the longest of these guarantees extends through December 31, 2010. These guarantees are not required to be recorded under the provisions of FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of June 30, 2009, the principal amount outstanding for the 8% Unitil Realty notes was $4.5 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 State notes due 2018. As of June 30, 2009, the principal amount outstanding for the 7.15% Granite State notes was $10.0 million. This guarantee will terminate if Granite State reorganizes and merges with and into Northern Utilities.

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NOTE 6 SEGMENT INFORMATION

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

Three Months Ended:	Electric	Gas	Other	Non-Regulated	Total
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**
June 30, 2008					
Revenues	$ 52.0	$ 6.6	$	$ 0.8	$ 59.4
Segment Profit (Loss)	2.0	(0.3)	(0.1)		1.6
Capital Expenditures	5.4	0.2	0.1		5.7
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	**344.4**	**338.9**	**10.4**	**0.8**	**694.5**
June 30, 2008					
Revenues	$ 108.6	$ 20.9	$	$ 1.8	$ 131.3
Segment Profit (Loss)	2.5	2.5	(0.2)	0.1	4.9
Capital Expenditures	9.6	0.5	0.1		10.2
Segment Assets	326.2	108.5	27.9	1.0	463.6

NOTE 7 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, 2008 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 18, 2009.

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. The Company believes the suit is without merit, and will defend itself vigorously.

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Regulatory Matters

Major Ice Storm On December 11 and 12, 2008, a severe ice storm struck 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 all of Unitil s 28,000 Massachusetts customers, and approximately half of its New Hampshire customers. Fitchburg was able to restore power to one-third of its Massachusetts customers within three days, 80 percent of its customers by day seven, and the final Massachusetts customers, including those with individual service problems, were restored by December 24, 2008. On January 7, 2009, the MDPU opened an investigation into the preparation and response of the Massachusetts electric distribution companies to the December 12, 2008 Winter Storm. Evidentiary hearings before the MDPU concerning Fitchburg s storm response were held in May, 2009. After the hearing, the Massachusetts Attorney General recommended that the MDPU assess fines against Fitchburg totaling $4.65 million as penalties for Fitchburg s performance during and after the storm. Fitchburg has argued that the Attorney General s recommendation is not supported by the evidence, is contrary to the record of the Company s actual performance, and incorrectly interprets the authority of the MDPU to assess such penalties. A decision by the MDPU regarding the results of its investigation and the recommendation of the Attorney General remains pending.

Based on its preliminary assessment, the Company has accrued and deferred as a regulatory asset, excluding capital construction expenditures, approximately $12.5 million in costs for the repair and replacement of electric distribution systems damaged during the storm. The amount and timing of the cost recovery of these storm restoration expenditures will be determined in future regulatory proceedings. 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.

Fitchburg Electric Division On November 26, 2008, Fitchburg submitted its annual reconciliation of costs and revenues for Transition, Transmission, Standard Offer Service, and Default Service filed under its restructuring plan (the Annual Reconciliation Filing). The rates were approved effective January 1, 2009, subject to reconciliation pursuant to the MDPU s investigation. This matter remains pending before the MDPU.

Fitchburg Gas Operations On March 12, 2009, the MDPU opened an investigation into Fitchburg s gas procurement practices. The purpose of this investigation is to determine: (1) whether Fitchburg has engaged in a purchasing program to mitigate the volatility of gas commodity prices without MDPU approval; and, if so, (2) an appropriate remedy, including whether Fitchburg s ratepayers are entitled to reimbursement for any gas supply costs that are higher than they would have been absent such purchasing program. The Company believes that its gas procurement practices have been and remain in compliance and consistent with all relevant MDPU rules and orders and Massachusetts law, and does not believe that the investigation will have a material adverse impact upon the Company s financial condition or the results of its operations. Evidentiary hearings were concluded in June 2009. The Massachusetts Attorney General, an intervener in the MDPU investigation, has argued that Fitchburg was required to obtain MDPU approval of its gas purchasing program, and has recommended that Fitchburg refund to ratepayers $863,368 of gas supply costs. Fitchburg disagrees with the Attorney General s analysis and conclusions and believes that the refund recommendation is without precedent and contrary to the evidence. A decision by the MDPU is expected by the end of the year. This matter remains pending.

Fitchburg Other On February 11, 2009, the MA 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 legislation 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

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energy efficiency investment plans, plans to establish smart grid pilot programs, and special tariffs to allow the net metering of customer-owned renewable generation. This matter remains pending.

Unitil Energy On June 17, 2009, UES made its annual reconciliation and rate filing with the NHPUC under its restructuring plan, for rates effective August 1, 2009, including reconciliation of prior year costs and revenues. This matter remains pending.

Northern Utilities Notices of Probable Violation Beginning in October 2007, the MPUC initiated formal investigations into a number of Notices of Probable Violation (NOPVs) alleging that Northern Utilities had violated various provisions of the federal pipeline safety regulations, as adopted by the MPUC. Northern Utilities, the MPUC Staff and Unitil filed a comprehensive settlement (Settlement), which was approved by the MPUC on November 21, 2008, resolving these matters. Under the Settlement, Northern Utilities will incur total expenditures of approximately $3.8 million for certain safety related improvements for which no rate recovery will be allowed and obligations to be undertaken for Northern Utilities distribution system to ensure compliance with the relevant state and federal gas safety laws. 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, 2009 was $2.3 million.

Northern Utilities New Hampshire 2007/2008 Winter Cost of Gas On October 31, 2007, the NHPUC issued Order No. 24,798 concerning the 2007/2008 winter cost of gas proceeding for Northern Utilities New Hampshire division. In that order, the NHPUC noted that Northern Utilities had identified an unusually high level of lost and unaccounted for gas (UAFG), and ordered Northern Utilities to file a detailed report concerning its investigation of this matter. Through its investigation, Northern Utilities determined that the UAFG affected both its New Hampshire and Maine divisions, and that the cause appeared to be incorrect metering at the Maritimes & Northeast (M&NE) / Portland Natural Gas Transmission System s (PNGTS) Newington Gate Station caused by an erroneous meter module change. The metering equipment was operated and maintained by a third party, Spectra Energy, the parent company of M&NE. PNGTS and M&NE share joint ownership of the section of the pipeline connected to Granite State at the Newington Gate Station. The error caused Granite State to be billed for 758,702 Dth of natural gas, with Granite State then billing Northern Utilities for an equivalent amount, although the volumes of gas were not actually delivered. The meter error was corrected and Northern Utilities, Granite State, Spectra Energy and PNGTS reached an agreement whereby PNGTS will provide to Northern Utilities, through Granite State, gas volumes equal to the misread amounts to correct for the error, over a period of approximately 18 months. Both the NHPUC and the MPUC have approved this arrangement, as well as Northern Utilities methodology for allocating the gas received to its Maine and New Hampshire divisions based upon the actual gas use over the period the meters were misread. As of June 30, 2009, Northern Utilities has recorded approximately $1.7 million reflecting the anticipated liability of the future refund amount based on current market prices, with an offsetting receivable from Granite State, and Granite State has recorded a receivable from PNGTS for this amount.

Northern Utilities Maine Capacity Costs In its October 28, 2008 approval of Northern Utilities Maine Division s Cost of Gas Factor for the 2008-2009 Winter Period, the MPUC approved recovery of an additional $0.5 million of annual demand costs that had been inadvertently omitted from Northern Utilities reconciliation of the 2008-2009 Winter Period rates, although analogous costs had been included in its calculation of 2007-2008 Winter Period rates. The MPUC determined that recovery of these Local Production Capacity Costs was consistent with previous MPUC orders and the $0.5 million was recovered in Northern Utility s rates in Maine between November 1, 2008 and April 30, 2009.

Northern Utilities also reported that, upon investigation, these annual demand costs, though approved, were incorrectly excluded from its reconciliation for five previous annual periods. The total impact for the five years is $2.4 million. On November 7, 2008, Northern Utilities, prior to the completion of the acquisition by Unitil, filed a request with the MPUC seeking an accounting order allowing it to defer and amortize for recovery these unrecovered gas costs over a three year period. In its Order dated July 1, 2009, the MPUC denied Northern s request for an accounting order and denied Northern s recovery of the unrecovered annual demand gas costs in future rates. Based on the uncertainty of the outcome of this proceeding, the Company had not recorded a regulatory asset related to this matter and therefore the MPUC s Order does not adversely impact the Company s financial statements.

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NOTE 8 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, 2008 AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 18, 2009.

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, 2009, 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 on the Company s Consolidated Balance Sheet at June 30, 2009 are current and non-current accrued liabilities totaling $10.8 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 on the Company s Consolidated Balance Sheet at June 30, 2009 are current and non-current accrued liabilities totaling $2.4 million 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 9 RETIREMENT BENEFIT OBLIGATIONS

The Company sponsors the following retirement benefit plans to provide certain pension and postretirement benefits for its retirees and current employees as follows:

The Unitil Corporation Retirement Plan (Pension Plan) The Pension Plan is a defined benefit pension plan covering substantially all of its employees. Under the Pension Plan, retirement benefits are based upon an employee s level of compensation and length of service.

The Unitil Retiree Health and Welfare Benefits Plan (PBOP Plan) The PBOP Plan provides health care and life insurance benefits to retirees. The Company has established Voluntary Employee Benefit Trusts (VEBT), into which it funds contributions to the PBOP Plan.

The Unitil Corporation Supplemental Executive Retirement Plan (SERP) The SERP is an unfunded retirement plan, with participation limited to executives selected by the Board of Directors.

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

	2009	2008
Used to Determine Plan Costs		
Discount Rate	**6.25%**	6.00%
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	**8.00%**	8.50%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%
Year that Ultimate Health Care Cost Trend Rate is reached	**2017**	2017

	2008	2007
Used to Determine Benefit Obligations:		
Discount Rate	**6.25%**	6.00%
Rate of Compensation Increase	**3.50%**	3.50%
Health Care Cost Trend Rate Assumed for Next Year	**8.00%**	8.50%
Ultimate Health Care Cost Trend Rate	**4.00%**	4.00%
Year that Ultimate Health care Cost Trend Rate is reached	**2017**	2017

The following table provides the components of the Company s Retirement plan costs ($000 s):

	Pension Plan		PBOP Plan		SERP	
Three Months Ended June 30,	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Service Cost	**$ 571**	$ 488	**$ 357**	$ 355	**$ 54**	$ 37
Interest Cost	**1,074**	943	**579**	559	**45**	31
Expected Return on Plan Assets	**(1,108)**	(1,094)	**(89)**	(82)		
Prior Service Cost Amortization	**66**	27	**428**	341	**(1)**	
Transition Obligation Amortization			**5**	6		
Actuarial Loss Amortization	**399**	319			**18**	6
Sub-total	**1,002**	683	**1,280**	1,179	**116**	74
Amounts Capitalized and Deferred	**(364)**	(246)	**(442)**	(513)		
Net Periodic Benefit Cost Recognized	**$ 638**	$ 437	**$ 838**	$ 666	**$ 116**	$ 74

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	Pension Plan		PBOP Plan		SERP	
Six Months Ended June 30,	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Service Cost	**$ 1,142**	$ 976	**$ 714**	$ 710	**$ 108**	$ 74
Interest Cost	**2,147**	1,887	**1,157**	1,118	**90**	63
Expected Return on Plan Assets	**(2,216)**	(2,187)	**(178)**	(163)		
Prior Service Cost Amortization	**132**	54	**856**	681	**(1)**	
Transition Obligation Amortization			**10**	11		
Actuarial Loss Amortization	**798**	638			**36**	12
Sub-total	**2,003**	1,368	**2,559**	2,357	**233**	149
Amounts Capitalized and Deferred	**(646)**	(447)	**(800)**	(952)		
Net Periodic Benefit Cost Recognized	**$ 1,357**	$ 921	**$ 1,759**	$ 1,405	**$ 233**	$ 149

Employer Contributions

On August 17, 2006, the Pension Protection Act of 006 (PPA) was signed into law. Included in the PPA are new minimum funding rules which will go into effect for plan years beginning in 2008. The funding target will be 100% of a plan s liability with any shortfall amortized over seven years, with lower (92% 100%) funding targets available to well-funded plans during the transition period. The Company expects to contribute approximately $4.0 million to fund its Pension Plan in 2009.

As of June 30, 2009, the Company had made $0.5 million and $26,000 of contributions to the PBOP and SERP Plans, respectively, in 2009. The Company presently anticipates contributing an additional $2.3 million and $27,000 to the PBOP and SERP Plans, respectively, in 2009.

NOTE 10 INCOME TAXES

The Company bills its customers sales tax in Massachusetts 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.

The Company evaluated its tax positions at December 31, 2008 and for the current interim reporting period ended June 30, 2009 in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FAS 109, and has concluded that no adjustment for recognition, derecognition, settlement and foreseeable future events to any unrecognized tax liabilities or assets as defined by FIN 48 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 remains subject to examination by Federal, Massachusetts and New Hampshire tax authorities for the tax periods ended December 31, 2005; December 31, 2006; and December 31, 2007. Income tax filings for the year ended December 31, 2008 have been extended until September 15, 2009. 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.

NOTE 11 UNAUDITED PRO FORMA FINANCIAL DATA RELATED TO ACQUISITIONS

On December 1, 2008, the Company acquired Northern Utilities and Granite State, as discussed in Note 1. Had the results of operations for Northern Utilities and Granite State been combined with the Company as of the beginning of 2008, the Company s pro forma results for the three and six months ended June 30, 2008 would have been as follows:

(Millions, except per share amounts) (Unaudited)	Three Months Ended June 30, 2008	Six Months Ended June 30, 2008
Revenues	$ 79.7	$ 206.1
Earnings (Loss) Applicable to Common Shareholders	$ (0.4)	$ 7.1
Earnings (Loss) per Share		
Basic	$ (0.04)	$ 0.66
Diluted	$ (0.04)	$ 0.66

The Unaudited Pro Forma Financial Data include non-recurring charges to operating expenses of $1.2 million, after tax, related to compliance violation penalties incurred by Northern Utilities in the second quarter of 2008.

The Unaudited Pro Forma Financial Data are presented for illustrative purposes only and do not indicate the financial results of the combined companies had the companies actually been combined and had the impact of possible revenue enhancements and expense efficiencies, among other factors, been considered, and is not intended to be a projection of future results.

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 7 and 8 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.

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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, 2008 as filed with the SEC on February 18, 2009.

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, 2009.

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 26, 2009, the Company periodically repurchases 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. The Company may suspend or terminate its Rule 10b5-1 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. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when $83,000 in value of shares have been purchased or, if sooner, on March 26, 2010.

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

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs
4/1/09 4/30/09			
5/1/09 5/31/09			
6/1/09 6/30/09	373	$ 20.03	373
Total	373	$ 20.03	373

Item 5. Other Information

On July 23, 2009, the Company issued a press release announcing its results of operations for the three- and six-month periods ended June 30, 2009. The press release is furnished with this Quarterly Report on Form 10-Q as Exhibit 99.1.

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Item 6. Exhibits

(a) Exhibits

Exhibit No.	Description of Exhibit	Reference
11	Computation of Earnings per Weighted Average Common Share Outstanding	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 23, 2009 Announcing Earnings For the Quarter Ended June 30, 2009.	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 24, 2009	/s/ Mark H. Collin Mark H. Collin Chief Financial Officer
Date: July 24, 2009	/s/ Laurence M. Brock Laurence M. Brock Chief Accounting Officer

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EXHIBIT INDEX

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99.1	Unitil Corporation Press Release Dated July 23, 2009 Announcing Earnings For the Quarter Ended June 30, 2009.	Filed herewith

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provision and the related deferred tax assets and liabilities and the related goodwill in conformity with generally accepted accounting principles. This control deficiency resulted in the restatement of the Company s consolidated financial statements for the five months ended December 31, 2004, the two months ended September 30, 2004 and the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005. This control deficiency could result in a misstatement of accounts and disclosures that would result in a material misstatement to the Company s interim or annual consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Company has taken the following actions to remediate this material weakness:

In June 2006, the Company hired a new director of tax to lead its tax function. This individual is a certified public accountant with over 19 years of experience as a tax professional, including over nine years with the tax practices of large public accounting firms. He possesses a strong background in interpreting and applying income tax accounting literature and preparing income tax provisions for public companies.

As part of its 2005 annual income tax provision, the Company improved its internal control over income tax accounting to establish detailed procedures for the preparation and review of the income tax provision, including review by the Company s chief accounting officer.

The Company used experienced qualified consultants to assist management in interpreting and applying income tax accounting literature and preparing the Company s income tax provision for the quarters ended September 30, 2006, June 30, 2006 and March 31, 2006 and the year ended December 31, 2005, and may continue to use such consultants in the future to obtain access to as much income tax accounting expertise as it needs.

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As a result of the remediation initiatives described above, the Company identified certain of the errors that gave rise to the restatements of the consolidated financial statements for deferred income taxes. In addition, the Company prepared accurate and timely income tax provisions for the year ended December 31, 2005 and the first three quarters of fiscal 2006. Based on these remediation initiatives, the Company believes that it has made substantial progress in addressing this material weakness as of September 30, 2006. The Company expects that this material weakness will be fully remediated once it demonstrates continued accurate and timely preparation of its income tax provisions, particularly the 2006 annual tax provision.

(b) Changes in Internal Control over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

We are involved in certain legal proceedings that are described in our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission, or the SEC, on March 27, 2006. There have been no material developments in the status of those legal proceedings during the nine months ended September 30, 2006, except as noted in the following paragraph with respect to outstanding bankruptcy claims.

Outstanding Bankruptcy Claims

Although our plan of reorganization became effective and we emerged from bankruptcy in August 2004, a tax claim of approximately $4.9 million Australian dollars (approximately $3.8 million U.S. dollars as of November 2, 2006) asserted by the Australian government against Leap in the U.S. Bankruptcy Court for the Southern District of California in Case Nos. 03-03470-All to 03-035335-All (jointly administered) has not yet been resolved. The Bankruptcy Court sustained our objection to the claim and dismissed the claim in June 2006. However, the Australian government has appealed the Bankruptcy Court order to the United States District Court for the Southern District of California in Case No. 06-CCV-1282. We, the Australian government and the trust established in bankruptcy for the benefit of the Leap general unsecured creditors have agreed in principle to settle this claim. We do not believe that the resolution of this claim will have a material adverse effect on our consolidated financial statements.

Patent Litigation

On June 14, 2006, we sued MetroPCS Communications, Inc., or MetroPCS, in the United States District Court for the Eastern District of Texas, Marshall Division, Civil Action No. 2-06H-CV-00240-TJW, for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same,* issued to us. Our complaint seeks damages and an injunction against continued infringement. On August 3, 2006, MetroPCS (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with two related entities, counterclaimed against Leap, Cricket, numerous Cricket subsidiaries, ANB 1 License, Denali License, and current and former employees of Leap and Cricket, including Leap CEO Doug Hutcheson. The countersuit alleges claims for breach of contract, misappropriation, conversion and disclosure of trade secrets, misappropriation of confidential information and breach of confidential relationship, relating to information provided by MetroPCS to such employees, including prior to their employment by Leap, and asks the court to award damages, including punitive damages, impose an injunction enjoining us from participating in Auction #66, impose a constructive trust on our business and assets for the benefit of MetroPCS, and declare that the MetroPCS entities have not infringed U.S. Patent No. 6,813,497 and that such patent is invalid. MetroPCS s claims allege that we and the other counterclaim defendants improperly obtained, used and disclosed trade secrets and confidential information of the MetroPCS entities and breached confidentiality agreements with the MetroPCS entities. On October 13, 2006, ANB 1 License, Denali License, and two of the individual counterclaim defendants filed motions to dismiss the claims against them, and the remaining counterclaim defendants answered the counterclaims. Based upon our preliminary review of the counterclaims, we believe that we have meritorious defenses and intend to vigorously defend against the counterclaims. If the MetroPCS entities were to prevail in their counterclaims, it could have a material adverse effect on our business, financial condition and results of operations. On September 22 , 2006, Royal Street Communications, LLC, or Royal Street, an entity affiliated with MetroPCS, filed an action in the United States District Court for the Middle District of Florida, Tampa Division, Civil Action No. 8:06-CV-01754-T-23TBM, seeking a declaratory judgment that Cricket s U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and*

Network and System for Delivering Same (the same patent that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by Royal Street or its PCS systems. On October 17, 2006, we filed a motion to dismiss the case or, in the alternative, to transfer the case to the Eastern District of Texas. We intend to vigorously defend against these actions.

On August 3, 2006, MetroPCS filed a separate action in the United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3-06CV1399-D, seeking a declaratory judgment that our

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U.S. Patent No. 6,959,183 *Operations Method for Providing Wireless Communication Services and Network and System for Delivering Same* (a different patent from the one that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by MetroPCS and its affiliates. On October 13, 2006, Leap and Cricket filed a motion to dismiss this action or, in the alternative, to transfer the action to the United States District Court for the Eastern District of Texas where another suit is pending between the Company, MetroPCS and other parties as described in the preceding paragraph. We intend to vigorously defend against the action.

On August 17, 2006, we were served with a complaint filed by MetroPCS and certain of its affiliates (together with MetroPCS, the MetroPCS entities) in the Superior Court of the State of California, County of Stanislaus, Case No. 382780, which names Leap, Cricket, certain of our subsidiaries, and certain current and former employees of Leap and Cricket, including Leap CEO Doug Hutcheson, as defendants. In the complaint, the MetroPCS entities allege (i) unfair competition, (ii) misappropriation of trade secrets, (iii) (with respect to the individuals sued) intentional and negligent interference with contract, (iv) breach of contract, (v) intentional interference with prospective economic advantage and (vi) trespass, and ask the court to award damages, including punitive damages, and restitution. On October 13, 2006, all defendants joined in a motion to stay the case until resolution of the case in the Eastern District of Texas because of the substantial overlap of the cases. If and when the case proceeds, based on the initial complaint, it is unclear whether, if the MetroPCS entities were to prevail, it could have a material adverse effect on our business, financial condition and results of operations. We intend to vigorously defend against the actions.

Tortious Interference and Unfair Competition Litigation

On July 10, 2006, we sued T-Mobile USA, Inc., or T-Mobile, in the District Court of Harris County, Texas, Cause No. 2006-42215, for tortious interference with existing contract, tortious interference with prospective relations, business disparagement, and antitrust violations arising out of anticompetitive activities of T-Mobile in the Houston, Texas marketplace. In response, on August 8, 2006, T-Mobile filed a counterclaim against Cricket, alleging tortious interference with T-Mobile s contracts with employees, ex-employees, authorized dealers and customers and unfair competition, and asking the court to award damages, including punitive damages, in an unspecified amount. If T-Mobile was to prevail in its counterclaim, it could have a material adverse effect on our business, financial condition and results of operations. We intend to vigorously defend against the counterclaim.

In addition to the matters described above, we are often involved in claims arising in the course of business, seeking monetary damages and other relief. The amount of the liability, if any, from such claims cannot currently be reasonably estimated; therefore, no accruals have been made as of September 30, 2006 for such claims. We believe that the ultimate liability for such claims will not have a material adverse effect on our consolidated financial statements.

Item 1A. Risk Factors.

There have been no material changes to the Risk Factors described under Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the three months ended June 30, 2006 previously filed with the SEC other than changes to:

the Risk Factor below entitled We Expect to Incur Substantial Costs in Connection with the Build-Out of Our New Markets, and any Delays or Cost Increases in the Build Out of Our New Markets Could Adversely Affect Our Business, which has been updated to reflect risks associated with the manufacture and supply of network equipment and handsets for AWS spectrum;

the Risk Factor below entitled If We Are Unable to Manage Our Planned Growth, Our Operations Could Be Adversely Impacted, which has been updated to reflect additional risks associated with continued growth;

the Risk Factors below entitled Our Indebtedness Could Adversely Affect Our Financial Health, Despite Current Indebtedness Levels, We May Incur Substantially More Indebtedness. This Could Further Increase the Risks Associated with Our Leverage and Covenants in Our Indenture and Credit Agreement and Other Credit Agreements or Indentures That We May Enter Into in the Future May Limit Our Ability to Operate Our Business, and the addition of a new Risk Factor below entitled We May Be Unable to Refinance Our

Indebtedness, which have been updated or added to reflect our borrowings under and repayment of our bridge loan facility, and the issuance by Cricket in October 2006 of $750 million of unsecured senior notes due in 2014 (see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Senior Notes in Part I above); and

the Risk Factors below entitled We May Not Be Successful in Protecting and Enforcing Our Intellectual Property Rights, We May Be Subject to Claims of Infringement Regarding Telecommunications Technologies That Are Protected by Patents and Other Intellectual Property Rights, and We Rely Heavily on Third Parties to Provide Specialized Services; a Failure by Such Parties to Provide the Agreed Services Could Materially Adversely Affect Our Business, Results of Operations and Financial Condition, which have been updated to reflect developments.

Risks Related to Our Business and Industry

We Have Experienced Net Losses, and We May Not Be Profitable in the Future.

We experienced net losses of $8.4 million and $49.3 million (excluding reorganization items, net) for the five months ended December 31, 2004 and the seven months ended July 31, 2004, respectively. In addition, we experienced net losses of $597.4 million for the year ended December 31, 2003, $664.8 million for the year ended December 31, 2002 and $483.3 million for the year ended December 31, 2001. Although we had net income of $30.0 million and $35.2 million for the year ended December 31, 2005 and the nine months ended September 30, 2006, respectively, we may not generate profits in the future on a consistent basis, or at all. Absent the $21.5 million net gain we recognized as a result of the sale of wireless licenses and operating assets in Toledo and Sandusky, Ohio in July 2006, we would have recorded a net loss of approximately $11.6 million for the three months ended September 30, 2006. We expect net income to decrease in the fourth quarter of 2006, and we may realize a net loss for fiscal 2006. If we fail to achieve consistent profitability, that failure could have a negative effect on our financial condition.

We May Not Be Successful in Increasing Our Customer Base Which Would Negatively Affect Our Business Plans and Financial Outlook.

Our growth on a quarter-by-quarter basis has varied substantially in the past. We believe that this uneven growth generally reflects seasonal trends in customer activity, promotional activity, the competition in the wireless telecommunications market, and varying national economic conditions. Our current business plans assume that we will increase our customer base over time, providing us with increased economies of scale. If we are unable to attract and retain a growing customer base, our current business plans and financial outlook may be harmed.

If We Experience High Rates of Customer Turnover, Our Ability to Remain Profitable Will Decrease.

Because we do not require customers to sign fixed-term contracts or pass a credit check, our service is available to a broader customer base than many other wireless providers and, as a result, some of our customers may be more likely to terminate service due to an inability to pay than the average industry customer, particularly during economic downturns or during periods of high gasoline prices. In addition, our rate of customer turnover may be affected by other factors, including the size of our calling areas, our handset or service offerings, customer care concerns, phone number portability and other competitive factors. Our strategies to address customer turnover may not be successful. A high rate of customer turnover would reduce revenues and increase the total marketing expenditures required to attract the minimum number of replacement customers required to sustain our business plan, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

We Have Made Significant Investment, and Will Continue to Invest, in Joint Ventures That We Do Not Control.

In November 2004, we acquired a 75% non-controlling interest in ANB 1, whose wholly owned subsidiary, ANB 1 License, was awarded certain licenses in Auction #58. In July 2006, we acquired a 72% non-controlling interest in LCW Wireless, which was awarded a wireless license for the Portland, Oregon market in Auction #58 and to which we contributed, among other things, two wireless licenses in Eugene and Salem, Oregon and related operating assets. Both ANB 1 License and LCW Wireless acquired their Auction #58 wireless licenses as very small business designated entities under FCC regulations. In July 2006, we acquired an 82.5% non-controlling interest in Denali, an entity which (through a wholly owned subsidiary) participated in Auction #66 as a very small business designated entity under FCC regulations. Our participation in these joint ventures is structured as a non-controlling interest in order to comply with FCC rules and regulations. We have agreements with our joint venture partners in ANB 1, LCW Wireless and Denali, and we plan to have similar agreements in connection with any future joint venture arrangements we may enter into, which are intended to allow us to actively participate to a limited extent in the development of the business through the joint venture. However, these agreements do not provide us with control over the business strategy, financial goals, build-out plans or other operational aspects of any such joint venture. The FCC s rules restrict our ability to acquire controlling interests in such entities during the period that such entities must maintain their eligibility as a designated entity, as defined by the FCC. The entities or persons that control the joint ventures may have interests and goals that are inconsistent or different from ours which could result in the joint venture taking actions that negatively impact our business or financial condition. In addition, if any of the other members of a joint venture files for bankruptcy or otherwise fails to perform its obligations or does not manage the joint venture effectively, we may lose our equity investment in, and any present or future opportunity to acquire the assets (including wireless licenses) of, such entity.

The FCC recently implemented rule changes aimed at addressing alleged abuses of its designated entity program, affirmed these changes on reconsideration and has sought comment on further rule changes. In that proceeding, the FCC has re-affirmed its goals of ensuring that only legitimate small businesses reap the benefits of the program, and that such small businesses are not controlled or manipulated by larger wireless carriers or other investors that do not meet the small business qualification tests. While we do not believe that the FCC s recent rule changes materially affect our current joint ventures with ANB 1, LCW Wireless and Denali, the scope and applicability of these rule changes to such current designated entity structures remains in flux, and parties have already sought further reconsideration or judicial review of these rule changes. In addition, we cannot predict how further rule changes or increased regulatory scrutiny by the FCC flowing from this proceeding will affect our current or future business ventures with designated entities or our participation with such entities in future FCC spectrum auctions.

We Face Increasing Competition Which Could Have a Material Adverse Effect on Demand for the Cricket Service.

In general, the telecommunications industry is very competitive. Some competitors have announced rate plans substantially similar to Cricket s service plans (and have also introduced products that consumers perceive to be similar to Cricket s service plans) in markets in which we offer wireless service. In addition, the competitive pressures of the wireless telecommunications market have caused other carriers to offer service plans with large bundles of minutes of use at low prices which are competing with the predictable and unlimited Cricket calling plans. Some competitors also offer prepaid wireless plans that are being advertised heavily to demographic segments that are strongly represented in Cricket s customer base. These competitive offerings could adversely affect our ability to maintain our pricing and increase or maintain our market penetration. Our competitors may attract more customers because of their stronger market presence and geographic reach. Potential customers may perceive the Cricket service to be less appealing than other wireless plans, which offer more features and options. In addition, existing carriers and potential non-traditional carriers are exploring or have announced the launch of service using new technologies and/or alternative delivery plans.

In addition, some of our competitors are able to offer their customers roaming services on a nationwide basis and at lower rates. We currently offer roaming services on a prepaid basis. Many competitors have substantially greater financial and other resources than we have, and we may not be able to compete successfully. Because of their size and bargaining power, our larger competitors may be able to purchase equipment, supplies and services at lower prices and attract a larger number of dealers than we can. Prior to the launch of a large market in 2006, disruptions by a competitor interfered with our indirect dealer relationships, reducing the number of dealers offering Cricket service during the initial weeks of launch. As consolidation in the industry creates even larger competitors, any purchasing advantages our competitors have may increase, as well as their bargaining power as wholesale providers of roaming services. For example, in connection with the offering of our Travel Time roaming service, we have encountered problems with certain large wireless carriers in negotiating terms for roaming arrangements that we believe are reasonable, and believe that consolidation has contributed significantly to such carriers control over the terms and conditions of wholesale roaming services.

We also compete as a wireless alternative to landline service providers in the telecommunications industry. Wireline carriers are also offering unlimited national calling plans and bundled offerings that include wireless and data services. We may not be successful in the long term, or continue to be successful, in our efforts to persuade potential customers to adopt our wireless service in addition to, or in replacement of, their current landline service.

The FCC is currently pursuing policies designed to increase the number of wireless licenses available in each of our markets. For example, the FCC has adopted rules that allow the partitioning, disaggregation and leasing of PCS and other wireless licenses, and continues to allocate and auction additional spectrum that can be used for wireless services, which may increase the number of our competitors.

We Have Identified Material Weaknesses in Our Internal Control Over Financial Reporting, and Our Business and Stock Price May Be Adversely Affected If We Do Not Remediate All of These Material Weaknesses, or If We Have Other Material Weaknesses in Our Internal Control Over Financial Reporting.

In connection with their evaluations of our disclosure controls and procedures, our CEO and CFO have concluded that certain material weaknesses in our internal control over financial reporting existed as of September 30, 2004, December 31, 2004, March 31, 2005, June 30, 2005, September 30, 2005, December 31, 2005, March 31, 2006, June 30, 2006 and September 30, 2006 with respect to turnover and staffing levels in our accounting, financial reporting and tax departments and the preparation of our income tax provision, and as of as of December 31, 2004 and March 31, 2005 with respect to the application of lease-related accounting principles, fresh-start reporting oversight, and account reconciliation procedures. We believe we have adequately remediated the material weaknesses associated with lease accounting, fresh-start reporting oversight and account reconciliation procedures.

Although we are engaged in remediation efforts with respect to the material weaknesses related to turnover and staffing and income tax provision preparation, the existence of one or more material weaknesses could result in errors in our financial statements, and substantial costs and resources may be required to rectify these or other internal control deficiencies. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information, the market price of Leap s common stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed. For a description of these material weaknesses and the steps we are undertaking to remediate them, see Item 4. Controls and Procedures contained in Part I of this report. We cannot assure you that we will be able to remediate these material weaknesses in a timely manner.

Our Internal Control Over Financial Reporting Was Not Effective as of December 31, 2005, and Our Business May Be Adversely Affected if We Are Not Able to Implement Effective Control Over Financial Reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to do a comprehensive evaluation of their internal control over financial reporting. To comply with this statute, we are required to document and test our internal control over financial reporting; our management is required to assess and issue a report concerning our internal control over financial reporting; and our independent registered public accounting firm is required to attest to and report on management s assessment and the effectiveness of internal control over financial reporting. We were required to comply with Section 404 of the Sarbanes-Oxley Act in connection with the filing of our Annual Report on Form 10-K for the year ended December 31, 2005. We conducted a rigorous review of our internal control over financial reporting in order to become compliant with the requirements of Section 404. The standards that must be met for management to assess our internal control over financial reporting are new and require significant documentation and testing. Our assessment identified the need for remediation of some aspects of our internal control over financial reporting. Our internal control over financial reporting has been subject to certain material weaknesses in the past and is currently subject to material weaknesses related to turnover and staffing and preparation of our income tax provision as described in Item 4. Controls and Procedures contained in Part I of this report. Our management concluded and our independent registered public accounting firm has attested and reported that our internal control over financial reporting was not effective as of December 31, 2005. If we are unable to implement effective control over financial reporting, investors could lose confidence in our reported financial information and the market price of Leap s common stock could decline significantly, we may be unable to obtain additional financing to operate and expand our business and our business and financial condition could be harmed.

Our Primary Business Strategy May Not Succeed in the Long Term.

A major element of our business strategy is to offer consumers service plans that allow unlimited calls for a flat monthly rate without entering into a fixed-term contract or passing a credit check. However, unlike national wireless carriers, we do not seek to provide ubiquitous coverage across the U.S. or all major metropolitan centers, and instead have a smaller network footprint covering only the principal population centers of our various markets. This strategy may not prove to be successful in the long term. From time to time, we also evaluate our service offerings and the demands of our target customers and may modify, change or adjust our service offerings or offer new services. We cannot assure you that these service offerings will be successful or prove to be profitable.

We Expect to Incur Substantial Costs in Connection with the Build-Out of Our New Markets, and any Delays or Cost Increases in the Build-Out of Our New Markets Could Adversely Affect Our Business.

Our ability to achieve our strategic objectives will depend in part on the successful, timely and cost-effective build-out of the networks associated with newly acquired FCC licenses, including the license acquired by LCW Wireless in Auction #58 and the licenses that we and Denali License expect to be awarded as a result of Auction #66 or licenses we may acquire from third parties. Large scale construction projects such as the build-out of our new markets will require significant capital expenditures and may suffer cost-overruns. In addition, we will experience higher operating expenses as we build out and after we launch our service in new markets. Any significant capital expenditures or increased operating expenses, including in connection with the build-out and launch of markets for the licenses that we and Denali License expect to be awarded as a result of Auction #66, would negatively impact our earnings and free cash flow for those periods in which we incur such capital expenditures or increased operating expenses. In addition, the build-out of the networks may be delayed or adversely affected by a variety of factors, uncertainties and contingencies, such as natural disasters, difficulties in obtaining zoning permits or other regulatory approvals, our relationships with our joint venture partners, and the timely performance by third parties of their contractual obligations to construct portions of the networks.

The spectrum that was auctioned in Auction #66 currently is used by U.S. federal government and/or incumbent commercial licensees. FCC rules require winning bidders to avoid interfering with these existing users or to clear the incumbent users from the spectrum through specified relocation procedures. We have considered the estimated cost and time frame required to clear the spectrum for which we and Denali License were declared the winning bidders in the auction. However, the actual cost of clearing the spectrum may exceed our estimated costs. Furthermore, delays in the provision of federal funds to relocate government users, or difficulties in negotiating with incumbent commercial licensees, may extend the date by which the auctioned spectrum can be cleared of existing operations, and thus may also delay the date on which we can launch commercial services using such licensed spectrum. In addition, certain existing government operations are using the spectrum that is being auctioned at classified geographic locations that have not yet been identified to bidders, which creates additional uncertainty about the time at which such spectrum will be available for commercial use.

Although our vendors have announced their intention to manufacture and supply network equipment and handsets that operate in the Advanced Wireless Services, or AWS, spectrum bands, network equipment and handsets that support

AWS are not presently available. If network equipment and handsets for the AWS spectrum are not made available on a timely basis in the future by our suppliers, our proposed build-outs and launches of new Auction #66 markets could be delayed, which would negatively impact our earnings and cash flows. In addition, if due to delays in the availability of AWS network equipment and handsets we ultimately must choose a technology platform for our networks other than CDMA, the adoption of such alternative technology solution could have a material adverse effect on our capital expenditures and capital spending plans. Any significant increase in our expected capital expenditures in connection with the build-out and launch of Auction #66 licenses could negatively impact our earnings and free cash flow for those periods in which we incur such capital expenditures.

Any failure to complete the build-out of our new markets on budget or on time could delay the implementation of our clustering and strategic expansion strategies, and could have a material adverse effect on our results of operations and financial condition.

If We Are Unable to Manage Our Planned Growth, Our Operations Could Be Adversely Impacted.

We have experienced growth in a relatively short period of time and expect to continue to experience growth in the future in our existing and new markets. The management of such growth will require, among other things, continued development of our financial and management controls and management information systems, stringent control of costs, diligent management of our network infrastructure and its growth, increased spending associated with marketing activities and acquisition of new customers, the ability to attract and retain qualified management personnel and the training of new personnel. In addition, continued growth will eventually require the expansion of our billing, customer care and sales systems and platforms, which will require additional capital expenditures and may divert the time and attention of management personnel who oversee any such expansion. Furthermore, the implementation of any such systems or platforms, including the transition to such systems or platforms from our existing infrastructure, could result in unpredictable technological or other difficulties. Failure to successfully manage our expected growth and development or timely and adequately resolve any such difficulties could have a material adverse effect on our business, financial condition and results of operations.

Our Indebtedness Could Adversely Affect Our Financial Health.

We have now and will continue to have a significant amount of indebtedness. As of September 30, 2006, our total outstanding indebtedness under the Credit Agreement was $898 million and we also had a $200 million undrawn revolving credit facility (which forms part of our senior secured credit facility). In August 2006, we entered into a bridge credit agreement providing for an $850 million bridge loan facility. In October 2006, we borrowed $570 million under the bridge loan facility to pay a portion of the final balance we owed to the FCC for our Auction #66 licenses and to loan Denali License $182.6 million to permit it to pay the final balance it owed to the FCC for its Auction #66 license. We used a portion of the net proceeds from our sale of $750 million in unsecured senior notes issued in October 2006 to repay the outstanding obligations, including accrued interest, under the bridge loan facility. Upon repayment of the outstanding indebtedness under the bridge loan facility, the bridge loan facility was terminated. In addition, we may seek to raise additional funds in the future. Indebtedness under our senior secured credit facility bears interest at a variable rate, but we have entered into interest rate swap agreements with respect to $355 million of our indebtedness. Our substantial indebtedness could have important consequences. For example, it could:

- make it more difficult for us to satisfy our debt obligations;
- increase our vulnerability to general adverse economic and industry conditions;
- impair our ability to obtain additional financing in the future for working capital needs, capital expenditures, building out our network, acquisitions and general corporate purposes;
- require us to dedicate a substantial portion of our cash flows from operations to the payment of principal and interest on our indebtedness, thereby reducing the availability of our cash flows to fund working capital needs, capital expenditures, acquisitions and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a disadvantage compared to our competitors that have less indebtedness; and

expose us to higher interest expense in the event of increases in interest rates because indebtedness under our senior secured credit facility bears interest at a variable rate. For a description of our senior secured credit facility, see Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Senior Secured Credit Facilities in Part I of this report.

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As of September 30, 2006, 55.5% of our assets consisted of goodwill and other intangibles, including wireless licenses and deposits for wireless licenses. This percentage will increase significantly following the expected acquisition of the wireless licenses for which we and Denali License were named the winning bidders in Auction #66, which have a collective purchase price of approximately $984.3 million. The value of our assets, and in particular, our intangible assets, will depend on market conditions, the availability of buyers and similar factors. By their nature, our intangible assets may not have a readily ascertainable market value or may not be saleable or, if saleable, there may be substantial delays in their liquidation. For example, prior FCC approval is required in order for any remedies to be exercised with respect to our wireless licenses and obtaining such approval could result in significant delays and reduce the proceeds obtained from the sale or other disposition of our wireless licenses.

Despite Current Indebtedness Levels, We May Incur Substantially More Indebtedness. This Could Further Increase the Risks Associated with Our Leverage.

We may incur substantial additional indebtedness in the future. The terms of the Indenture permit us, subject to specified limitations, to incur additional indebtedness, including secured indebtedness. In addition, our Credit Agreement permits us to incur additional indebtedness under various financial ratio tests.

In October 2006, we borrowed an aggregate of $570 million under our bridge loan facility to pay a portion of the final balance we owed to the FCC for our Auction #66 licenses and to loan Denali License $182.6 million to permit it to pay the final balance it owed to the FCC for its Auction #66 license. A portion of the net proceeds from our sale of $750 million of unsecured senior notes in October 2006 was used to repay our outstanding obligations under the bridge loan facility, after which our bridge loan facility was terminated. In addition, we may require significant additional capital in the future to finance the build-out and initial operating costs associated with licenses that we and Denali License expect to be awarded as a result of Auction #66.

If new indebtedness is added to our current levels of indebtedness, the related risks that we now face could intensify. See Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Part I of this report. Furthermore, any licenses that we acquire in Auction #66 and the subsequent build-out of the networks covered by those licenses may significantly reduce our free cash flow, increasing the risk that we may not be able to service our indebtedness.

To Service Our Indebtedness and Fund Our Working Capital and Capital Expenditures, We Will Require a Significant Amount of Cash. Our Ability to Generate Cash Depends on Many Factors Beyond Our Control.

Our ability to make payments on our indebtedness will depend upon our future operating performance and on our ability to generate cash flow in the future, which is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, or that future borrowings, including borrowings under our revolving credit facility, will be available to us or available in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If the cash flow from our operating activities is insufficient, we may take certain actions, such as delaying or reducing capital expenditures (including expenditures to build out our newly acquired wireless licenses), attempting to restructure or refinance our indebtedness prior to maturity, selling assets or operations or seeking additional equity capital. Any or all of these actions may be insufficient to allow us to service our debt obligations. Further, we may be unable to take any of these actions on commercially reasonable terms, or at all.

We May Be Unable to Refinance Our Indebtedness.

We may need to refinance all or a portion of our indebtedness, before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including under our Indenture or our Credit Agreement, on commercially reasonable terms or at all. There can be no assurance that we will be able to obtain sufficient funds to enable us to repay or refinance our debt obligations on commercially reasonable terms or at all.

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Covenants in Our Indenture and Credit Agreement and Other Credit Agreements or Indentures That We May Enter Into in the Future May Limit Our Ability to Operate Our Business.

Our Indenture and Credit Agreement contain covenants that restrict the ability of Leap, Cricket and the subsidiary guarantors to make distributions or other payments to our investors or creditors until we satisfy certain financial tests or other criteria. In addition, the Indenture and the Credit Agreement include covenants restricting, among other things, the ability of Leap, Cricket and their restricted subsidiaries to:

- incur additional indebtedness;
- create liens or other encumbrances;
- place limitations on distributions from restricted subsidiaries;
- pay dividends, make investments, prepay subordinated indebtedness or make other restricted payments;
- issue or sell capital stock of restricted subsidiaries;
- issue guarantees;
- sell or otherwise dispose of all or substantially all of our assets;
- enter into transactions with affiliates; and
- make acquisitions or merge or consolidate with another entity.

Under the Credit Agreement, we must also comply with, among other things, financial covenants with respect to a maximum consolidated senior secured leverage ratio and, if a revolving credit loan or uncollateralized letter of credit is outstanding, with respect to a minimum consolidated interest coverage ratio, a maximum consolidated leverage ratio and a minimum consolidated fixed charge ratio. The restrictions in our Credit Agreement could limit our ability to make borrowings, obtain debt financing, repurchase stock, refinance or pay principal or interest on our outstanding indebtedness, complete acquisitions for cash or debt or react to changes in our operating environment. Any credit agreement or indenture that we may enter into in the future may have similar restrictions.

If we default under our Indenture or our Credit Agreement because of a covenant breach or otherwise, all outstanding amounts thereunder could become immediately due and payable. Our failure to timely file our Annual Report on Form 10-K for fiscal year ended December 31, 2004 and our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2005 constituted defaults under our previous senior secured credit agreement, and the restatement of certain of the historical consolidated financial information contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 may have constituted a default under our previous senior secured credit agreement. Although we were able to obtain limited waivers under our previous senior secured credit agreement with respect to these events, we cannot assure you that we will be able to obtain a waiver in the future should a default occur.

We cannot assure you that we would have sufficient funds to repay all of the outstanding amounts under our Indenture or our Credit Agreement, and any acceleration of amounts due would have a material adverse effect on our liquidity and financial condition.

Rises in Interest Rates Could Adversely Affect our Financial Condition.

An increase in prevailing interest rates would have an immediate effect on the interest rates charged on our variable rate debt, which rise and fall upon changes in prevailing interest rates. As of September 30, 2006, we estimate that approximately 60% of our debt was variable rate debt after considering the effect of our interest rate swap agreements. If prevailing interest rates or other factors result in higher interest rates on our variable rate debt, the increased interest expense would adversely affect our cash flow and our ability to service our debt.

The Wireless Industry is Experiencing Rapid Technological Change, and We May Lose Customers if We Fail to Keep Up with These Changes.

The wireless communications industry is experiencing significant technological change, as evidenced by the ongoing improvements in the capacity and quality of digital technology, the development and commercial acceptance of wireless data services, shorter development cycles for new products and enhancements and changes in end-user requirements and preferences. In the future, competitors may seek to provide competing wireless telecommunications service through the use of developing technologies such as Wi-Fi, Wi-Max, and Voice over Internet Protocol, or VoIP. The cost of implementing or competing against future technological innovations may be prohibitive to us, and we may lose customers if we fail to keep up with these changes.

For example, we have committed a substantial amount of capital to upgrade our network with 1xEV-DO technology to offer advanced data services. However, if such upgrades, technologies or services do not become commercially accepted, our revenues and competitive position could be materially and adversely affected. We cannot assure you that there will be widespread demand for advanced data services or that this demand will develop at a level that will allow us to earn a reasonable return on our investment.

The Loss of Key Personnel and Difficulty Attracting and Retaining Qualified Personnel Could Harm Our Business.

We believe our success depends heavily on the contributions of our employees and on attracting, motivating and retaining our officers and other management and technical personnel. We do not, however, generally provide employment contracts to our employees. If we are unable to attract and retain the qualified employees that we need, our business may be harmed.

We have experienced higher than normal employee turnover in the past, in part because of our bankruptcy, including turnover of individuals at the most senior management levels. We may have difficulty attracting and retaining key personnel in future periods, particularly if we were to experience poor operating or financial performance. The loss of key individuals in the future may have a material adverse impact on our ability to effectively manage and operate our business.

Risks Associated with Wireless Handsets Could Pose Product Liability, Health and Safety Risks That Could Adversely Affect Our Business.

We do not manufacture handsets or other equipment sold by us and generally rely on our suppliers to provide us with safe equipment. Our suppliers are required by applicable law to manufacture their handsets to meet certain governmentally imposed safety criteria. However, even if the handsets we sell meet such regulatory safety criteria, we could be held liable with the equipment manufacturers and suppliers for any harm caused by products we sell if such products are later found to have design or manufacturing defects. We generally have indemnification agreements with the manufacturers who supply us with handsets to protect us from direct losses associated with product liability, but we cannot guarantee that we will be fully protected against all losses associated with a product that is found to be defective.

Media reports have suggested that the use of wireless handsets may be linked to various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Certain class action lawsuits have been filed in the industry claiming damages for alleged health problems arising from the use of wireless handsets. In addition, interest groups have requested that the FCC investigate claims that wireless technologies pose health concerns and cause interference with airbags, hearing aids and other medical devices. The media has also reported incidents of handset battery malfunction, including reports of batteries that have overheated.

Malfunctions have caused at least one major handset manufacturer to recall certain batteries used in its handsets, including batteries in a handset sold by Cricket and other wireless providers.

Concerns over radio frequency emissions and defective products may discourage the use of wireless handsets, which could decrease demand for our services. In addition, if one or more Cricket customers were harmed by a defective product provided to us by the manufacturer and subsequently sold in connection with our services, our ability to add and maintain customers for Cricket service could be materially adversely affected by negative public reactions.

There also are certain safety risks associated with the use of wireless handsets while driving. Concerns over these safety risks and the effect of any legislation that has been and may be adopted in response to these risks could limit our ability to sell our wireless service.

We Rely Heavily on Third Parties to Provide Specialized Services; a Failure by Such Parties to Provide the Agreed Services Could Materially Adversely Affect Our Business, Results of Operations and Financial Condition.

We depend heavily on suppliers and contractors with specialized expertise in order for us to efficiently operate our business. In the past, our suppliers, contractors and third-party retailers have not always performed at the levels we expect or at the levels required by their contracts. If key suppliers, contractors or third-party retailers fail to comply with their contracts, fail to meet our performance expectations or refuse or are unable to supply us in the future, our business could be severely disrupted. Generally, there are multiple sources for the types of products we purchase. However, some suppliers, including software suppliers, are the exclusive sources of their specific products. In addition, we currently purchase a substantial majority of the handsets we sell from one supplier. Because of the costs and time lags that can be associated with transitioning from one supplier to another, our business could be substantially disrupted if we were required to replace the products or services of one or more major suppliers with products or services from another source, especially if the replacement became necessary on short notice. Any such disruption could have a material adverse affect on our business, results of operations and financial condition.

A key software supplier recently informed us that it expects to cease operations. We are taking steps to license the supplier s software source code and documentation and to engage selected supplier personnel for software maintenance support to avoid a material impact to our business. However, we cannot provide assurances to our investors about the effect of this supplier s expected closure, or the possible future effect on us of disruptions in the business of other suppliers whose products or services cannot be immediately replaced with the products or services of another supplier.

System Failures Could Result in Higher Churn, Reduced Revenue and Increased Costs, and Could Harm Our Reputation.

Our technical infrastructure (including our network infrastructure and ancillary functions supporting our networks such as billing and customer care) is vulnerable to damage or interruption from technology failures, power loss, floods, windstorms, fires, human error, terrorism, intentional wrongdoing, or similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause service interruptions. In addition, we are in the process of upgrading some of our systems, including our billing system, and we cannot assure you that we will not experience delays or interruptions while we transition our data and existing systems onto our new systems. If any of the above events were to occur, we could experience higher churn, reduced revenues and increased costs, any of which could harm our reputation and have a material adverse effect on our business.

We May Not be Successful in Protecting and Enforcing Our Intellectual Property Rights.

We rely on a combination of patent, service mark, trademark, and trade secret laws and contractual restrictions to establish and protect our proprietary rights, all of which only offer limited protection. We endeavor to enter into agreements with our employees and contractors and agreements with parties with whom we do business in order to limit access to and disclosure of our proprietary information. Despite our efforts, the steps we have taken to protect our intellectual property may not prevent the misappropriation of our proprietary rights. Moreover, others may independently develop processes and technologies that are competitive to ours. The enforcement of our intellectual property rights may depend on any legal actions that we undertake against such infringers being successful, but we cannot be sure that any such actions will be successful, even when our rights have been infringed.

We cannot assure you that our pending, or any future, patent applications will be granted, that any existing or future patents will not be challenged, invalidated or circumvented, that any existing or future patents will be enforceable, or that the rights granted under any patent that may issue will provide competitive advantages to us. For example, on June 14, 2006, we sued MetroPCS Communications, Inc., or MetroPCS, in the United States District Court for the Eastern District of Texas, Marshall Division, Civil Action No. 2-06-CV-00240-TJW, for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same,* issued to us. Our complaint seeks damages and an injunction against continued infringement. On August 3, 2006, MetroPCS (i) answered the complaint, (ii) raised a number of affirmative defenses, and (iii) together with two related entities (referred to, collectively with MetroPCS, as the MetroPCS entities), counterclaimed against Leap, Cricket, numerous Cricket subsidiaries, ANB 1 License, Denali License, and current and former employees of Leap and Cricket, including Leap CEO Doug Hutcheson. The countersuit alleges claims for breach of contract, misappropriation, conversion and disclosure of trade secrets, misappropriation of confidential information and breach of confidential relationship, relating to information provided by MetroPCS to such employees, including prior to their employment by Leap, and asks the court to award damages, including punitive damages, impose an injunction enjoining us from participating in Auction #66, impose a constructive trust on our business and assets for the benefit of MetroPCS, and declare that the MetroPCS entities have not infringed U.S. Patent No. 6,813,497 and that such patent is invalid. MetroPCS s claims allege that we and the other counterclaim defendants improperly obtained, used and disclosed trade secrets and confidential information of the MetroPCS entities and breached confidentiality agreements with the MetroPCS entities. Based upon our preliminary review of the counterclaims, we believe that we have meritorious defenses and intend to vigorously defend against the counterclaims. If the MetroPCS entities were to prevail in their counterclaims, it could have a material adverse effect on our business, financial condition and results of operations. Also, on September 22, 2006, Royal Street Communications, LLC, or Royal Street, an entity affiliated with MetroPCS, filed an action in the United States District Court for the Middle District of Florida, Tampa Division, Civil Action No. 8:06-CV-01754-T-23TBM, seeking a declaratory judgment that Cricket s U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering Same* (the same patent that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by Royal Street or its PCS systems. We intend to vigorously defend against these actions.

On August 3, 2006, MetroPCS filed a separate action in the United States District Court for the Northern District of Texas, Dallas Division, Civil Action No. 3-06CV1399-D, seeking a declaratory judgment that our U.S. Patent No. 6,959,183 *Operations Method for Providing Wireless Communication Services and Network and System for Delivering Same* (a different patent from the one that is the subject of our infringement action against MetroPCS) is invalid and is not being infringed by MetroPCS and its affiliates. We intend to vigorously defend against the action.

Similarly, we cannot assure you that any trademark or service mark registrations will be issued with respect to pending or future applications or that any registered trademarks or service marks will be enforceable or provide adequate protection of our brands.

We May Be Subject to Claims of Infringement Regarding Telecommunications Technologies That Are Protected by Patents and Other Intellectual Property Rights.

Telecommunications technologies are protected by a wide array of patents and other intellectual property rights. As a result, third parties may assert infringement claims against us from time to time based on our general business operations or the specific operation of our wireless network. We generally have indemnification agreements with the manufacturers and suppliers who provide us with the equipment and technology that we use in our business to protect us against possible infringement claims, but we cannot guarantee that we will be fully protected against all losses associated with infringement claims. Whether or not an infringement claim was valid or successful, it could adversely affect our business by diverting management attention, involving us in costly and time-consuming litigation, requiring us to enter into royalty or licensing agreements (which may not be available on acceptable terms, or at all), or requiring us to redesign our business operations or systems to avoid claims of infringement.

A third party with a large patent portfolio has contacted us and suggested that we need to obtain a license under a number of its patents in connection with our current business operations. We understand that the third party has raised similar issues with other telecommunications companies, and has obtained license agreements from one or more of such companies. If we cannot reach a mutually agreeable resolution with the third party, we may be forced to enter into a licensing or royalty agreement with the third party. In addition, a wireless provider has contacted us and asserted that Cricket s practice of providing service to customers with phones that were originally purchased for use on that provider s network violates copyright laws and interferes with that provider s contracts with its customers. Based on our preliminary review, we do not believe that Cricket s actions violate copyright laws or otherwise violate the other provider s rights. We do not currently expect that the eventual resolution of these matters will materially adversely affect our business, but we cannot provide assurance to our investors about the effect of any such future resolution.

Regulation by Government Agencies May Increase Our Costs of Providing Service or Require Us to Change Our Services.

The FCC regulates the licensing, construction, modification, operation, ownership, sale and interconnection of wireless communications systems, as do some state and local regulatory agencies. We cannot assure you that the FCC or any state or local agencies having jurisdiction over our business will not adopt regulations or take other enforcement or other actions that would adversely affect our business, impose new costs or require changes in current or planned operations. In particular, state regulatory agencies are increasingly focused on the quality of service and support that wireless carriers provide to their customers and several agencies have proposed or enacted new and potentially burdensome regulations in this area.

In addition, we cannot assure you that the Communications Act of 1934, as amended, or the Communications Act, from which the FCC obtains its authority, will not be further amended in a manner that could be adverse to us. The FCC recently implemented rule changes and sought comment on further rule changes focused on addressing alleged abuses of its designated entity program, which gives certain categories of small businesses preferential treatment in FCC spectrum auctions based on size. In that proceeding, the FCC has re-affirmed its goals of ensuring that only legitimate small businesses benefit from the program, and that such small businesses are not controlled or manipulated by larger wireless carriers or other investors that do not meet the small business qualification tests. We cannot predict the degree to which rule changes or increased regulatory scrutiny that may follow from this proceeding will affect our current or future business ventures or our participation in future FCC spectrum auctions.

Our operations are subject to various other regulations, including those regulations promulgated by the Federal Trade Commission, the Federal Aviation Administration, the Environmental Protection Agency, the Occupational Safety and Health Administration and state and local regulatory agencies and legislative bodies. Adverse decisions or regulations of these regulatory bodies could negatively impact our operations and costs of doing business. Because of our smaller size, governmental regulations and orders can significantly increase our costs and affect our competitive position compared to other larger telecommunications providers. We are unable to predict the scope, pace or financial impact of regulations and other policy changes that could be adopted by the various governmental entities that oversee portions of our business.

If Call Volume under Our Cricket and Jump Mobile Services Exceeds Our Expectations, Our Costs of Providing Service Could Increase, Which Could Have a Material Adverse Effect on Our Competitive Position.

During the year ended December 31, 2005, Cricket customers used their handsets approximately 1,450 minutes per month, and some markets were experiencing substantially higher call volumes. Our Cricket service plans bundle certain features, long distance and unlimited local service for a fixed monthly fee to more effectively compete with other telecommunications providers. In addition, call volumes under our Jump Mobile services have been significantly higher than expected. If customers exceed expected usage, we could face capacity problems and our costs of providing the services could increase. Although we own less spectrum in many of our markets than our competitors, we seek to design our network to accommodate our expected high call volume, and we consistently assess and try to implement technological improvements to increase the efficiency of our wireless spectrum. However, if future wireless use by Cricket and Jump Mobile customers exceeds the capacity of our network, service quality may suffer. We may be forced to raise the price of Cricket and Jump Mobile service to reduce volume or otherwise limit the number of new customers, or incur substantial capital expenditures to improve network capacity.

We May Be Unable to Acquire Additional Spectrum in the Future at a Reasonable Cost or on a Timely Basis.

Because we offer unlimited calling services for a fixed fee, our customers average minutes of use per month is substantially above the U.S. wireless customer average. We intend to meet this demand by utilizing spectrum efficient technologies. There may come a point where we need to acquire additional spectrum in order to maintain an acceptable grade of service or provide new services to meet increasing customer demands. We also intend to acquire additional spectrum in order to enter new strategic markets. However, we cannot assure you that we will be able to acquire additional spectrum at auction or in the after-market at a reasonable cost, that we will be awarded the licenses for which we and Denali License were winning bidders at Auction #66, or that additional spectrum would be made available by the FCC on a timely basis. If such additional spectrum is not available to us at that time or at a reasonable cost, our results of operations could be adversely affected.

Our Wireless Licenses are Subject to Renewal and Potential Revocation in the Event that We Violate Applicable Laws.

Our existing PCS wireless licenses are subject to renewal upon the expiration of the 10-year period for which they are granted, commencing for some of our PCS wireless licenses in 2006. The FCC will award a renewal expectancy to a wireless licensee that has provided substantial service during its past license term and has substantially complied with applicable FCC rules and policies and the Communications Act. The FCC has routinely renewed wireless licenses in the past. However, the Communications Act provides that licenses may be revoked for cause and license renewal applications denied if the FCC determines that a renewal would not serve the public interest. FCC rules provide that applications competing with a license renewal application may be considered in comparative hearings, and establish the qualifications for competing applications and the standards to be applied in hearings. We cannot assure you that the FCC will renew our wireless licenses upon their expiration.

Future Declines in the Fair Value of Our Wireless Licenses Could Result in Future Impairment Charges.

During the three months ended June 30, 2003, we recorded an impairment charge of $171.1 million to reduce the carrying value of our wireless licenses to their estimated fair value. However, as a result of our adoption of fresh-start reporting under American Institute of Certified Public Accountants Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, or SOP 90-7, we increased the carrying value of our wireless licenses to $652.6 million at July 31, 2004, the fair value estimated by management based in part on information provided by an independent valuation consultant. During the nine months ended September 30, 2006 and the year ended December 31, 2005, we recorded impairment charges of $7.9 million and $12.0 million, respectively.

The market values of wireless licenses have varied dramatically over the last several years, and may vary significantly in the future. In particular, valuation swings could occur if:

- consolidation in the wireless industry allows or requires carriers to sell significant portions of their wireless spectrum holdings;
- a sudden large sale of spectrum by one or more wireless providers occurs; or
- market prices decline as a result of the sales prices in recent and upcoming FCC auctions, including Auction #66.

In addition, the price of wireless licenses could decline as a result of the FCC s pursuit of policies designed to increase the number of wireless licenses available in each of our markets. For example, the FCC has recently auctioned an additional 90 MHz of spectrum in the 1700 MHz to 2100 MHz band in Auction #66 and has announced that it intends to auction additional spectrum in the 700 MHz and 2.5 GHz bands in subsequent auctions. If the

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market value of wireless licenses were to decline significantly, the value of our wireless licenses could be subject to non-cash impairment charges.

We assess potential impairments to our indefinite-lived intangible assets, including wireless licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. We conduct our annual tests for impairment of our wireless licenses during the third quarter of each year. Estimates of the fair value of our wireless licenses are based primarily on available market prices, including successful bid prices in FCC auctions and selling prices observed in wireless license transactions. A significant impairment loss could have a material adverse effect on our operating income and on the carrying value of our wireless licenses on our balance sheet.

Declines in Our Operating Performance Could Ultimately Result in an Impairment of Our Indefinite-Lived Assets, Including Goodwill, or Our Long-Lived Assets, Including Property and Equipment.

We assess potential impairments to our long-lived assets, including property and equipment and certain intangible assets, when there is evidence that events or changes in circumstances indicate that the carrying value may not be recoverable. We assess potential impairments to indefinite-lived intangible assets, including goodwill and wireless licenses, annually and when there is evidence that events or changes in circumstances indicate that an impairment condition may exist. If we do not achieve our planned operating results, this may ultimately result in a non-cash impairment charge related to our long-lived and/or our indefinite-lived intangible assets. A significant impairment loss could have a material adverse effect on our operating results and on the carrying value of our goodwill or wireless licenses and/or our long-lived assets on our balance sheet.

We May Incur Higher Than Anticipated Intercarrier Compensation Costs.

When our customers use our service to call customers of other carriers, we are required under the current intercarrier compensation scheme to pay the carrier that serves the called party. Similarly, when a customer of another carrier calls one of our customers, that carrier is required to pay us. While in most cases we have been successful in negotiating agreements with other carriers that impose reasonable reciprocal compensation arrangements, some carriers have claimed a right to unilaterally impose what we believe to be unreasonably high charges on us. The FCC is actively considering possible regulatory approaches to address this situation but we cannot assure you that the FCC rulings will be beneficial to us. An adverse ruling or FCC inaction could result in carriers successfully collecting higher intercarrier fees from us, which could adversely affect our business.

The FCC also is considering making various significant changes to the intercarrier compensation scheme to which we are subject. We cannot predict with any certainty the likely outcome of this FCC proceeding. Some of the alternatives that are under active consideration by the FCC could severely increase the interconnection costs we pay. If we are unable to cost-effectively provide our products and services to customers, our competitive position and business prospects could be materially adversely affected.

Because Our Consolidated Financial Statements Reflect Fresh-Start Reporting Adjustments Made upon Our Emergence from Bankruptcy, Financial Information in Our Current and Future Financial Statements Will Not Be Comparable to Our Financial Information for Periods Prior to Our Emergence from Bankruptcy.

As a result of adopting fresh-start reporting on July 31, 2004, the carrying values of our wireless licenses and our property and equipment, and the related depreciation and amortization expense, among other things, changed considerably from that reflected in our historical consolidated financial statements. Thus, our current and future balance sheets and results of operations will not be comparable in many respects to our balance sheets and consolidated statements of operations data for periods prior to our adoption of fresh-start reporting. You are not able to compare information reflecting our post-emergence balance sheet data, results of operations and changes in financial condition to information for periods prior to our emergence from bankruptcy without making adjustments for fresh-start reporting.

If We Experience High Rates of Credit Card, Subscription or Dealer Fraud, Our Ability to Become Profitable Will Decrease.

Our operating costs can increase substantially as a result of customer credit card, subscription or dealer fraud. We have implemented a number of strategies and processes to detect and prevent efforts to defraud us, and we believe that our efforts have substantially reduced the types of fraud we have identified. However, if our strategies are not successful in detecting and controlling fraud in the future, it could have a material adverse impact on our financial condition and results of operations.

Risks Related to Ownership of Our Common Stock

Our Stock Price May Be Volatile, and You May Lose All or Some of Your Investment.

The trading prices of the securities of telecommunications companies have been highly volatile. Accordingly, the trading price of Leap common stock is likely to be subject to wide fluctuations. Factors affecting the trading price of Leap common stock may include, among other things:

- variations in our operating results;
- announcements of technological innovations, new services or service enhancements, strategic alliances or significant agreements by us or by our competitors;
- recruitment or departure of key personnel;
- changes in the estimates of our operating results or changes in recommendations by any securities analysts that elect to follow Leap common stock; and
- market conditions in our industry and the economy as a whole.

The 16,460,077 Shares of Leap Common Stock Registered for Resale By Our Shelf Registration Statement May Adversely Affect The Market Price of Leap s Common Stock.

As of November 1, 2006, 67,763,650 shares of Leap common stock were issued and outstanding. Our resale shelf Registration Statement, as amended, registers for resale 16,460,077 shares, or approximately 24.3%, of Leap s outstanding common stock. We are unable to predict the potential effect that sales into the market of any material portion of such shares may have on the then prevailing market price of Leap s common stock. If any of Leap s stockholders cause a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap s common stock. These sales also could impede our ability to raise future capital.

Your Ownership Interest in Leap Will Be Diluted Upon Issuance of Shares We Have Reserved for Future Issuances, and Future Issuances or Sales of Such Shares May Adversely Affect The Market Price of Leap s Common Stock.

As of November 1, 2006, 67,763,650 shares of Leap common stock were issued and outstanding, and 4,876,350 additional shares of Leap common stock were reserved for issuance, including 3,497,361 shares reserved for issuance upon exercise of awards granted or available for grant under Leap s 2004 Stock Option, Restricted Stock and Deferred Stock Unit Plan, 778,989 shares reserved for issuance under Leap s Employee Stock Purchase Plan, and 600,000 shares reserved for issuance upon exercise of outstanding warrants.

In addition, Leap has reserved five percent of its outstanding shares, which was 3,388,183 shares as of November 1, 2006, for potential issuance to CSM upon the exercise of CSM s option to put its entire equity interest in LCW Wireless to Cricket. Under the amended and restated limited liability company agreement with CSM and WLPCS Management, LLC, or WLPCS, the purchase price for CSM s equity interest is calculated on a pro rata basis using either the appraised value of LCW Wireless or a multiple of Leap s enterprise value divided by its adjusted EBITDA and applied to LCW Wireless adjusted EBITDA to impute an enterprise value and equity value for LCW Wireless. Cricket may satisfy the put price either in cash or in Leap common stock, or a combination thereof, as determined by Cricket in its discretion. However, the covenants in the Credit Agreement do not permit Cricket to satisfy any substantial portion of its put obligations to CSM in cash. If Cricket elects to satisfy its put

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obligations to CSM with Leap common stock, the obligations of the parties are conditioned upon the block of Leap common stock issuable to CSM not constituting more than five percent of Leap s outstanding common stock at the time of issuance. Dilution of the outstanding number of shares of Leap s common stock could adversely affect prevailing market prices for Leap s common stock.

We have agreed to prepare and file a resale shelf registration statement for any shares of Leap common stock issued to CSM in connection with the put, and to use our reasonable efforts to cause such registration statement to be declared effective by the SEC. See Item 1. Business Arrangements with LCW Wireless in our Annual Report on Form 10-K for the year ended December 31, 2005 for further discussion of our arrangements with LCW Wireless. In addition, we have registered all shares of common stock that we may issue under our stock option, restricted stock and deferred stock unit plan and under our employee stock purchase plan. When we issue shares under these stock plans, they can be freely sold in the public market. If any of Leap s stockholders cause a large number of securities to be sold in the public market, these sales could reduce the trading price of Leap s common stock. These sales also could impede our ability to raise future capital.

Our Directors and Affiliated Entities Have Substantial Influence over Our Affairs.

Our directors and entities affiliated with them beneficially owned in the aggregate approximately 24.6% of Leap common stock as of November 1, 2006. These stockholders have the ability to exert substantial influence over all matters requiring approval by our stockholders. These stockholders will be able to influence the election and removal of directors and any merger, consolidation or sale of all or substantially all of Leap s assets and other matters. This concentration of ownership could have the effect of delaying, deferring or preventing a change in control or impeding a merger or consolidation, takeover or other business combination.

Provisions in Our Amended and Restated Certificate of Incorporation and Bylaws or Delaware Law Might Discourage, Delay or Prevent a Change in Control of Our Company or Changes in Our Management and, Therefore, Depress The Trading Price of Our Common Stock.

Our amended and restated certificate of incorporation and bylaws contain provisions that could depress the trading price of Leap common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that our stockholders may deem advantageous. These provisions:

- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and bylaws;
- authorize the issuance of blank check preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- prohibit stockholder action by written consent, and require that all stockholder actions be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Additionally, we are subject to Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder became an interested stockholder and which may discourage, delay or prevent a change in control of our company.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Index to Exhibits:

Exhibit Number	Description of Exhibit
4.1(1)	Confirmation of Forward Sale Transaction, dated August 15, 2006, by and between Leap Wireless International, Inc. and Goldman Sachs Financial Markets, L.P.
4.2(1)	Confirmation of Forward Sale Transaction, dated August 15, 2006, by and between Leap Wireless International, Inc. and Citibank, N.A.
4.3(2)	Indenture, dated as of October 23, 2006, by and among Cricket Communications, Inc., the Initial Guarantors (as defined therein) and Wells Fargo Bank, N.A., as trustee.
4.4(2)	Registration Rights Agreement, dated as of October 23, 2006, by and among Cricket Communications, Inc., the Guarantors (as defined therein), Citigroup Global Markets Inc. and Goldman, Sachs & Co., as representatives of the Initial Purchasers named therein.
10.1*	Amendment No. 6 to Amended and Restated System Equipment Purchase Agreement, effective as of August 31, 2006, by and between Cricket Communications, Inc. and Nortel Networks Inc.
10.2*	Amendment No. 7 to Amended and Restated System Equipment Purchase Agreement, effective as of October 18, 2006, by and between Cricket Communications, Inc. and Nortel Networks Inc.
10.3*	Letter Amendment to the Amended and Restated Security Agreement dated as of June 16, 2006 by and among Cricket Communications, Inc., Leap Wireless International, Inc. and Bank of America, N.A., as administrative agent, dated October 16, 2006
10.4(3)	Credit Agreement, dated as of July 13, 2006, by and among Cricket Communications, Inc., Denali Spectrum License, LLC and Denali Spectrum, LLC.
10.4.1*	Amendment No. 1 to Credit Agreement by and among Cricket Communications, Inc., Denali Spectrum License, LLC and Denali Spectrum, LLC, dated as of September 28, 2006, between Cricket Communications, Inc., Denali Spectrum License, LLC and Denali Spectrum, LLC.
10.5(4)	Bridge Credit Agreement, dated August 8, 2006, by and among Cricket Communications, Inc., Leap Wireless International, Inc., the lenders party thereto and Citicorp North America, Inc., as administrative agent.
10.5.1(4)	Parent Guaranty, dated August 8, 2006, made by Leap Wireless International, Inc. in favor of the lenders under the Bridge Credit Agreement.
10.5.2(4)	Subsidiary Guaranty, dated August 8, 2006, made by the Subsidiary Guarantors in favor of the lenders under the Bridge Credit Agreement.

10.5.3*	Letter Amendment to the Bridge Credit Agreement dated as of August 8, 2006 by and among Cricket Communications, Inc., Leap Wireless International, Inc., Citicorp North America, Inc., as administrative agent, and the lenders party thereto, dated October 12, 2006.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32***	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

*** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. § 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of Leap Wireless International, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Portions of this exhibit (indicated by asterisks) have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

(1) Filed as an exhibit to Leap s Current Report on Form 8-K, dated August 15, 2006, filed with the SEC on October 30, 2006, and incorporated herein by reference.

(2) Filed as an exhibit to Leap s Current Report on Form 8-K, dated October 23, 2006, filed with the SEC on October 24, 2006, and incorporated herein by reference.

(3) Filed as an exhibit to Leap s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2006, as filed with the SEC on August 8, 2006, and incorporated herein by reference.

(4) Filed as an exhibit to Leap s Current Report on Form 8-K, dated August 8, 2006, filed with the SEC on August 10, 2006, and incorporated herein by reference.

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SIGNATURES

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

LEAP WIRELESS INTERNATIONAL, INC.

Date: November 8, 2006	By: /s/ S. Douglas Hutcheson S. Douglas Hutcheson Chief Executive Officer and President (Principal Executive Officer)

Date: November 8, 2006
By:
/s/ Amin I. Khalifa

AMIN I. KHALIFA
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)