

UNITIL CORP
Form PRE 14A
July 03, 2008
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Unitil Corporation

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies: "

Edgar Filing: UNITIL CORP - Form PRE 14A

(2) Aggregate number of securities to which transaction applies: "

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined): "

(4) Proposed maximum aggregate value of transaction: "

(5) Total fee paid: "

" Fee paid previously with preliminary materials.

" Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed: "

Table of Contents

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Hampton, New Hampshire

, 2008

To the Shareholders:

You are hereby notified that a special meeting of shareholders of Unitil Corporation (the Company) will be held at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on _____, 2008 at 10:30 a.m. (local time) for the following purposes:

1. To approve and adopt an amendment to the Company's Articles of Incorporation, as amended, to increase the authorized number of shares of common stock, no par value per share, of the Company from 8,000,000 shares to 16,000,000 shares in the aggregate.
2. To act on such other matters as may properly come before the meeting and any adjournments thereof.

The enclosed form of proxy has been prepared at the direction of the Company's Board of Directors and is sent to you at its request. The persons named in said proxy have been designated by the Board of Directors.

The Board of Directors fixed _____, 2008 as the date for determining holders of record of common stock, no par value per share, who are entitled to notice of, and to vote at, this meeting and any adjournments thereof.

Your vote is very important. In order to save the Company the expense of further solicitation to ensure a quorum is present at the meeting, please be sure your shares are represented at the meeting and complete and return the enclosed proxy card promptly, regardless of whether you plan to attend the meeting. If for any reason you desire to revoke or change your proxy, you may do so at any time prior to the meeting, or in person at the meeting.

By Order of the Board of Directors,

Sandra L. Whitney

Corporate Secretary

Table of Contents

Unitil Corporation

6 Liberty Lane West

Hampton, New Hampshire 03842-1720

PROXY STATEMENT

SPECIAL MEETING OF SHAREHOLDERS

, 2008

This proxy statement and the accompanying proxy card are being provided to shareholders in connection with the Special Meeting of Shareholders (the Special Meeting) of Unitil Corporation (the Company). As a shareholder of the Company, you are invited to attend the Special Meeting, as well as entitled to and requested to vote on the proposal described in this proxy statement. This proxy statement provides information to assist you in voting your shares.

The Company anticipates first mailing this proxy statement and the accompanying proxy card to shareholders on or about _____, 2008.

Table of Contents

Table of Contents

<u>Introduction</u>	1
<u>Summary Term Sheet for the Proposed Acquisitions</u>	2
<u>Parties to the Stock Purchase Agreement</u>	2
<u>Targets of the Proposed Acquisitions</u>	2
<u>Description of the Proposed Acquisitions</u>	3
<u>Consideration for the Proposed Acquisitions</u>	3
<u>Financing for the Proposed Acquisitions</u>	3
<u>Closing of the Proposed Acquisitions</u>	3
<u>Regulatory Requirements for and Approvals of the Proposed Acquisitions</u>	4
<u>Closing Conditions for the Proposed Acquisitions</u>	4
<u>Indemnification Relating to the Proposed Acquisitions</u>	4
<u>Reasons for Engaging in the Proposed Acquisitions</u>	5
<u>Vote Required for the Approval of the Proposed Acquisitions</u>	5
<u>Material Differences in the Rights of the Company's Shareholders as a result of the Proposed Acquisitions</u>	6
<u>Accounting Treatment of the Proposed Acquisitions</u>	6
<u>Information about the Special Meeting</u>	7
<u>Date, Time, and Place</u>	7
<u>Anticipated Mailing Date</u>	7
<u>Matters to be Considered</u>	7
<u>Record Date; Number of Shares Outstanding</u>	7
<u>Quorum</u>	7
<u>Voting Rights and Procedures</u>	7
<u>Proxy; Revocability of Proxy</u>	8
<u>Rights of Appraisal</u>	8
<u>Required Vote, Abstentions, and Non-Votes</u>	8
<u>Persons Making the Solicitation</u>	9
<u>Change of Control Arrangements</u>	9
<u>Voting Securities and Principal Holders Thereof</u>	10
<u>Forward-Looking Statements</u>	12
<u>Risks Relating to the Proposed Acquisitions</u>	14
<u>Proposal No. 1 Amendment of the Articles of Incorporation</u>	17
<u>Title and Amount of Securities to be Authorized</u>	17
<u>Preemptive and Other Rights</u>	17
<u>Description of the Transaction in which the Securities are to be Issued</u>	17
<u>Approval and Adoption of the Amendment</u>	18
<u>The Proposed Acquisitions</u>	19
<u>Description of the Proposed Acquisitions</u>	19
<u>Background of the Proposed Acquisitions</u>	20
<u>Reasons for Engaging in the Proposed Acquisitions; Estimated Potential Synergies Attributable to the Proposed Acquisitions</u>	23
<u>Recommendations of the Board of Directors</u>	24
<u>Opinion of the Company's Financial Advisor</u>	25
<u>Accounting Treatment of the Proposed Acquisitions</u>	34
<u>The Company's Financial and Other Information</u>	35
<u>Description of Business</u>	35
<u>Selected Financial Data</u>	36
<u>Pro Forma Combined Selected Financial Data (unaudited)</u>	37
<u>Pro Forma Financial Data</u>	39
<u>Accountant's Report; Financial Statements; Supplementary Financial Information; Management's Discussion and Analysis of Financial Condition and Results of Operations; Quantitative and Qualitative Disclosures About Market Risk</u>	40
<u>Consent of Independent Registered Public Accounting Firm</u>	41

Northern Utilities Financial and Other Information
Description of Business

42
42

Table of Contents

<u>Selected Financial Data</u>	42
<u>Financial Statements</u>	43
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	43
<u>Three Months Ended March 31, 2008 and 2007</u>	43
<u>Regulatory Matters</u>	44
<u>Fiscal Years Ended December 31, 2007, 2006 and 2005</u>	51
<u>Regulatory Matters</u>	52
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	60
<u>Granite State's Financial and Other Information</u>	61
<u>Description of Business</u>	61
<u>Selected Financial Data</u>	61
<u>Financial Statements</u>	62
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	62
<u>Three Months Ended March 31, 2008 and 2007</u>	62
<u>Regulatory Matters</u>	63
<u>Fiscal Years Ended December 31, 2007, 2006 and 2005</u>	68
<u>Regulatory Matters</u>	69
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	75
<u>Experts</u>	76
<u>Where You Can Find More Information</u>	76
<u>Information Incorporated by Reference</u>	76
<u>Shareholder Proposals</u>	76
<u>Other Matters</u>	77
<u>Solicitation of Proxies</u>	77
Annex A	Amendment to the Company's Articles of Incorporation
Annex B	Pro Forma Financial Statements of the Company as of March 31, 2008 and for the Three Months Ended March 31, 2008 and as of December 31, 2007 and for the Year Ended December 31, 2007
Annex C	Unaudited Condensed Financial Statements of Northern Utilities, Inc. as of March 31, 2008 and 2007 and for the Three Months Ended March 31, 2008 and 2007
Annex D	Financial Statements of Northern Utilities, Inc. as of December 31, 2007 and 2006 and for the Years Ended December 31, 2007, 2006, and 2005 together with Independent Registered Public Accounting Firm's Report
Annex E	Unaudited Condensed Financial Statements of Granite State Gas Transmission, Inc. as of March 31, 2008 and 2007 and for the Three Months Ended March 31, 2008 and 2007
Annex F	Financial Statements of Granite State Gas Transmission, Inc. as of December 31, 2007 and 2006 and for the Years Ended December 31, 2007, 2006, and 2005 together with Independent Registered Public Accounting Firm's Report
Annex G	Opinion of RBC Capital Markets Corporation

Table of Contents

Introduction

The Special Meeting will be held for the following purposes:

1. To approve and adopt an amendment to the Company's Articles of Incorporation, as amended, to increase the authorized number of shares of common stock, no par value per share (the Common Stock), from 8,000,000 shares to 16,000,000 shares in the aggregate.
2. To act on such other matters as may properly come before the Special Meeting and any adjournments thereof.

With respect to the first proposal, the Company intends to sell and issue up to 4,000,000 shares of Common Stock in a public offering to partially finance the proposed acquisition by the Company of all of the outstanding capital stock of Northern Utilities, Inc. (Northern Utilities) and Granite State Gas Transmission, Inc. (Granite State) by means of a stock purchase (the Proposed Acquisitions). At present, the Company's authorized shares of Common Stock available for issuance are insufficient for this purpose. If the first proposal is not approved by the Company's shareholders, or if the first approval is approved but the public offering is delayed or is not completed in whole or in part for any reason, then the Company will use a bridge credit facility or other debt financing to finance the Proposed Acquisitions. The bridge credit facility provides for a loan of up to eleven months during which period the Company will need to arrange alternative financing.

A vote of the Company's shareholders is not required to approve the Proposed Acquisitions. The Company is contractually obligated to complete the Proposed Acquisitions pursuant to the Stock Purchase Agreement dated as of February 15, 2008 (the Stock Purchase Agreement) by and among the Company, NiSource Inc. (NiSource) and Bay State Gas Company (Bay State) regardless of whether the Company is able to obtain adequate financing.

Table of Contents

Summary Term Sheet for the Proposed Acquisitions

The following summary term sheet is intended to serve as an overview of certain material terms of the Proposed Acquisitions. This summary term sheet is not complete, may not contain all of the information that is important to the Company's shareholders, and is qualified in its entirety by reference to additional information in this proxy statement and to the complete text of the Stock Purchase Agreement. A copy of the Stock Purchase Agreement was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission (the SEC) on February 20, 2008 and is incorporated herein by reference.

Parties to the Stock Purchase Agreement

Unitil Corporation
6 Liberty Lane West
Hampton, New Hampshire 03842-1720
Telephone: (800) 999-6501

NiSource Inc.
801 East 86th Avenue
Merrillville, Indiana 46410
Telephone: (877) 647-5990

Bay State Gas Company
c/o NiSource Inc.
801 East 86th Avenue
Merrillville, Indiana 46410
Telephone: (877) 647-5990

For a more detailed discussion regarding the Company, please see the section entitled *The Company's Financial and Other Information*.

Targets of the Proposed Acquisitions

The targets of the Proposed Acquisitions are:

(i) Northern Utilities, a wholly owned subsidiary of Bay State (Bay State is a wholly owned subsidiary of NiSource); and

(ii) Granite State, a wholly owned subsidiary of NiSource.

For a more detailed discussion regarding Northern Utilities and Granite State, please see the sections entitled *Northern Utilities Financial and Other Information* and *Granite State's Financial and Other Information*.

Table of Contents

Description of the Proposed Acquisitions

On February 15, 2008, the Company, NiSource, and Bay State entered into the Stock Purchase Agreement pursuant to which the Company agreed to acquire (i) all of the outstanding shares of capital stock of Northern Utilities from Bay State and (ii) all of the outstanding shares of capital stock of Granite State from NiSource.

For a more detailed discussion regarding the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions*.

Consideration for the Proposed Acquisitions

In consideration for the Proposed Acquisitions, the Company has agreed to pay NiSource and Bay State an aggregate of \$160 million in cash, subject to a working capital adjustment.

For a more detailed discussion regarding the consideration for the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions*.

Financing for the Proposed Acquisitions

The Company expects to finance the Proposed Acquisitions through (i) the sale and issuance of up to 4,000,000 shares of Common Stock in a public offering and (ii) the sale and issuance of debt at the subsidiary level. At present, the Company's authorized shares of Common Stock available for issuance are insufficient for this purpose. Therefore, the Company is requesting that its shareholders approve and adopt Proposal No. 1 (as defined below). If Proposal No. 1 is not approved by the Company's shareholders, or if Proposal No. 1 is approved but the public offering is delayed or is not completed in whole or in part for any reason, then the Company will use a bridge credit facility or other debt financing to finance the Proposed Acquisitions. The bridge credit facility provides for a loan of up to eleven months during which period the Company will need to arrange alternative financing.

A vote of the Company's shareholders is not required to approve the Proposed Acquisitions. The Company is contractually obligated to complete the Proposed Acquisitions pursuant to the Stock Purchase Agreement regardless of whether the Company is able to obtain adequate financing.

For a more detailed discussion regarding the consideration for the Proposed Acquisitions, please see the section entitled *Risks Relating to the Proposed Acquisitions*.

Closing of the Proposed Acquisitions

The Proposed Acquisitions are expected to close during the fourth quarter of 2008, however there is no assurance that the Proposed Acquisitions will close at that time.

For a more detailed discussion regarding the closing of the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions Description of the Proposed Acquisitions*.

Table of Contents

Regulatory Requirements for and Approvals of the Proposed Acquisitions

The Proposed Acquisitions are subject to (i) approval by the Maine Public Utilities Commission (the Maine Commission) and the State of New Hampshire Public Utilities Commission (the New Hampshire Commission) and (ii) review by certain federal agencies (including compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, with respect to which early termination of the waiting period was granted effective May 19, 2008).

For a more detailed discussion regarding Regulatory Requirements and Approvals relating to the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions Description of the Proposed Acquisitions*.

Closing Conditions for the Proposed Acquisitions

The Proposed Acquisitions are subject to customary closing conditions, including:

- (i) certain regulatory requirements and approvals;
- (ii) certain third-party consents;
- (iii) the Company, NiSource, and Bay State entering into a transition services agreement; and
- (iv) no court or governmental entity having enacted, issued, promulgated, enforced or entered any statute, law, ordinance, rule, regulation, judgment, decree, injunction or other order restraining, enjoining, or otherwise prohibiting consummation of the Proposed Acquisitions.

For a more detailed discussion regarding closing conditions for the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions Description of the Proposed Acquisitions*.

Indemnification Relating to the Proposed Acquisitions

The Stock Purchase Agreement provides that NiSource and Bay State will indemnify the Company for certain losses as described therein. The indemnification provided by NiSource and Bay State is subject to (i) a per claim minimum indemnification limit of \$100,000, (ii) an aggregate claims minimum indemnification limit of 1% of the purchase price, and (iii) an aggregate claims maximum indemnification limit of 10% of the purchase price

(other than the tax indemnification provided by NiSource and Bay State, which is not subject to any dollar limit).

For a more detailed discussion regarding indemnification relating to the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions Description of the Proposed Acquisitions*.

Table of Contents

Reasons for Engaging in the Proposed Acquisitions

The Company's Board of Directors (the Board of Directors) believes that the Proposed Acquisitions and related transactions will result in the following significant benefits to the Company:

a strategically attractive growth opportunity consistent with the Company's strategy;

increased financial strength and stability;

organizational efficiency;

reduced operating expenses and cash flow savings; and

opportunity for improved regulated utility operating earnings through the execution of the Company's regulatory plan.

The Board of Directors also believes that the Proposed Acquisitions and related transactions will result in the following significant benefits to the Company's other stakeholders:

increased commitment to local communities; and

improved customer convenience and service.

For a more detailed discussion regarding the Company's reasons for engaging in the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions - Reasons for Engaging in the Proposed Acquisitions; Estimated Potential Synergies Attributable to the Proposed Acquisitions*.

Vote Required for the Approval of the Proposed Acquisitions

A vote of the Company's shareholders is not required to approve the Proposed Acquisitions. However, the Company expects to finance the Proposed Acquisitions through (i) the sale and issuance of Common Stock in a public

offering and (ii) the sale and issuance of debt at the subsidiary level. At present, the Company's authorized shares of Common Stock available for issuance are insufficient for this purpose. Therefore, the Company is requesting that its shareholders approve and adopt an amendment to the Company's Articles of Incorporation, as amended, to increase the authorized number of shares of Common Stock from 8,000,000 shares to 16,000,000 shares in the aggregate.

For a more detailed discussion regarding the shareholder vote required for approving and adopting the amendment referred to above, please see the sections entitled *Information About the Special Meeting* and *Proposal No. 1 Amendment of the Articles of Incorporation*.

Table of Contents

Material Differences in the Rights of the Company's Shareholders as a Result of the Proposed Acquisitions

The amendment referred to above will not affect the rights of existing holders of Common Stock except that the issuance of additional shares of Common Stock will reduce each existing shareholder's proportionate ownership of the Company. The additional shares of Common Stock will have the same rights and privileges as the shares of Common Stock presently issued and outstanding.

For a more detailed discussion regarding the rights of holders of Common Stock, please see the section entitled *Proposal No. 1 Amendment of the Articles of Incorporation Preemptive and Other Rights*.

Accounting Treatment of the Proposed Acquisitions

The Company intends to account for the acquisition of Northern Utilities and Granite State under the purchase method of accounting for business combinations, in accordance with Financial Accounting Standards Board Statement No. 141, *Business Combinations* (SFAS No. 141). In that process, the Company will recognize and measure the identifiable assets acquired and the liabilities assumed at fair value. Also, the Company will measure and recognize any acquisition adjustment related to a purchase premium or bargain relative to the fair values acquired against the purchase price.

If the Proposed Acquisitions are completed subsequent to December 31, 2008, the Company will account for the Proposed Acquisitions in accordance with Financial Accounting Standards Board Statement No. 141 (Revised 2007), *Business Combinations* (SFAS No. 141R).

For a more detailed discussion regarding the accounting treatment of the Proposed Acquisitions, please see the section entitled *The Proposed Acquisitions Accounting Treatment of the Proposed Acquisitions*.

Table of Contents

Information about the Special Meeting

Date, Time, and Place

The Special Meeting will be held on _____, 2008 at 10:30 a.m. at the office of the Company, 6 Liberty Lane West, Hampton, New Hampshire.

Anticipated Mailing Date

The Company anticipates first mailing this proxy statement and the accompanying proxy card to shareholders on or about _____, 2008.

Matters to be Considered

The Special Meeting will be held for the following purposes:

1. To approve and adopt an amendment to the Company's Articles of Incorporation, as amended, to increase the authorized number of shares of Common Stock from 8,000,000 shares to 16,000,000 shares in the aggregate (Proposal No. 1).
2. To act on such other matters as may properly come before the Special Meeting and any adjournments thereof.

Information on Proposal No. 1 is included in the section entitled Proposal No. 1 Amendment of the Articles of Incorporation. The Board of Directors recommends a vote **FOR** Proposal No. 1.

Record Date; Number of Shares Outstanding

You are entitled to receive notice of and to vote at the Special Meeting if you own shares of Common Stock as of the close of business on _____, 2008 (the Record Date). As of the Record Date, the Company had _____ shares of Common Stock issued and outstanding and entitled to vote at the Special Meeting.

Quorum

In order to conduct the Special Meeting, a majority of the outstanding shares of Common Stock entitled to vote must be present or be represented by proxy. This is referred to as a quorum.

Voting Rights and Procedures

You may cast one vote for each share of Common Stock you own on all matters presented at the Special Meeting.

Table of Contents

If your shares are registered directly in your name with the Company's transfer agent, Computershare Trust Company, N.A., (Computershare) as of the Record Date, you are considered the holder of record, and the Company has sent the proxy materials and proxy card directly to you. As a holder of record, you may vote your shares by returning the enclosed proxy card, or you may vote your shares in person at the Special Meeting. If your shares are held in the name of a bank, brokerage account or other nominee as of the Record Date, you are considered the beneficial owner of the shares held in street name. Your bank, broker or other nominee has sent you the proxy materials and a vote instruction form. You have the right to direct your bank, broker, or other nominee on how to vote the shares by completing and returning the vote instruction form or by following the voting instructions provided. If you wish to attend the Special Meeting and vote your shares in person, you must first obtain a legal proxy from your bank, broker or other nominee giving you the right to vote your shares at the Special Meeting.

Every properly signed or submitted proxy will be voted unless previously revoked. If no instructions are specified on a returned proxy card, shares will be voted **FOR** Proposal No. 1.

Representatives of the Company's transfer agent, Computershare, will count the votes and certify the election results.

Proxy; Revocability of Proxy

A proxy is your legal designation of another person, the proxy, to vote on your behalf. With the completion and return of your proxy card, you are giving the persons appointed as proxies by the Board of Directors, Robert G. Schoenberger and Mark H. Collin, the authority to vote your shares in the manner indicated on your proxy card.

You have the right to revoke your proxy at any time before the Special Meeting. If you are a holder of record, you may revoke your proxy (i) by contacting the Company's Corporate Secretary at (800) 999-6501 or at the address listed in the section entitled *Summary Term Sheet for the Proposed Acquisitions Parties to the Stock Purchase Agreement* prior to the Special Meeting or (ii) in person at the Special Meeting. The latest-dated, properly completed proxy that you submit will count as your vote. If you are a beneficial owner and your shares are held in street name, you must contact your bank, broker or other nominee and follow their procedures for revoking your proxy or changing your vote instructions.

Rights of Appraisal

There are no rights of appraisal or similar rights of dissenters with respect to any matter to be acted upon at the Special Meeting.

Required Vote, Abstentions, and Non-Votes

Assuming a quorum is present, with respect to all matters that may come before the Special Meeting, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action.

Table of Contents

Abstentions and non-votes will not constitute a vote cast and therefore will have no effect on the action.

Persons Making the Solicitation

The Board of Directors is soliciting your proxy to vote your shares at the Special Meeting. For a more detailed discussion regarding the solicitation of proxies, please see the section entitled *Solicitation of Proxies*.

Change of Control Arrangements

The Company maintains Change of Control Agreements with certain key management employees, including each executive officer named in the Summary Compensation Table contained in the Company's proxy statement dated as of February 12, 2008 (each a Named Executive Officer), so that key management employees will make decisions and take actions that are in the best interest of shareholders and not be unduly influenced by the fear of job loss. The Board of Directors approves all Change of Control Agreements. The Company maintains both two-year (executed in 2001 and later) Change of Control Agreements and three-year (executed prior to 2001) Change of Control Agreements. All Change of Control Agreements are double trigger agreements, which means that the following two events must occur in order for benefits to be paid: (i) a change of control and (ii) an adverse employment action. Double trigger agreements were chosen to protect the shareholders from executives choosing to leave the Company as result of a change of control where there is no adverse employment action. Each Change of Control Agreement becomes effective, and the severance benefit becomes potentially payable, exclusively upon the occurrence of a change of control of the Company.

Each Change of Control Agreement also provides for the continuation of all employee benefits for a period of two or three years, based on the term of the agreement, commencing with the month in which the termination occurs. In the event that any payments made in connection with a change of control would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, as amended, the Company will gross up, on an after-tax basis, the Named Executive Officers' compensation for that excise tax. The severance benefit is a lump sum cash payment made from the general funds of the Company. The Company is not required to establish a special or separate fund or other segregation of assets to assure such payments.

The Proposed Acquisitions will not cause a change of control of the Company for purposes of the Change of Control Agreements and therefore no severance benefits will become potentially payable as a result of the consummation of the Proposed Acquisitions.

Table of Contents

Voting Securities and Principal Holders Thereof

No person owns of record and, to the knowledge of the Company, no person owns beneficially, more than five percent of the Common Stock that may be voted at the Special Meeting.

The following table sets forth information on the beneficial ownership of Common Stock by the Directors, the Named Executive Officers, and all Directors and executive officers as a group, in each case as of the Record Date. To the Company's knowledge, each Director and executive officer has sole voting and investment power with respect to the shares reported, except as otherwise noted in the footnotes to the following table. The address of each of the Company's Directors and executive officers is c/o Unitil Corporation, 6 Liberty Lane West Hampton, New Hampshire 03842-1720.

<u>Name of Person or Group</u>	<u>Amount and Nature of Beneficial Ownership of Common Stock (1)</u>	<u>Percent of Class</u>
Dr. Robert V. Antonucci	832	*
Director		
David P. Brownell	2,637	*
Director		
Michael J. Dalton (2)	37,082	*
Director		
Albert H. Elfner, III	6,549	*
Director		
Edward F. Godfrey	2,058	*
Director		
Michael B. Green	1,687	*
Director		
Eben S. Moulton	2,994	*
Director		
M. Brian O Shaughnessy	3,834	*
Director		
Charles H. Tenney III (3)	148,484	%
Director		

Edgar Filing: UNITIL CORP - Form PRE 14A

Dr. Sarah P. Voll	1,641	*
Director		
Robert G. Schoenberger (4)	98,918	%
Chairman of the Board, Chief Executive Officer and President		
Mark H. Collin (5)	14,878	*
Senior Vice President, Chief Financial Officer and Treasurer		
Thomas P. Meissner, Jr. (6)	12,478	*
Senior Vice President and Chief Operating Officer		
George R. Gantz (7)	17,722	*
Senior Vice President, Unitil Service Corp.		
Todd R. Black (8)	10,847	*
President, Usource, Inc.		
All Directors and Executive Officers as a Group (19 Persons) (9)	391,445	%

* Represents less than 1% of the Company's outstanding Common Stock.

(1) Based on information furnished to the Company by the Directors and executive officers.

Table of Contents

- (2) Included are 8,088 shares held by a member of Mr. Dalton's family. Mr. Dalton has no voting rights or investment power with respect to, and no beneficial interest in, such shares.
- (3) Included are 1,119 shares that are held in trust for Mr. Tenney under the terms of the Unitil Tax Deferred Savings and Investment Plan (401(k)). Mr. Tenney has voting power only with respect to the shares credited to his account. Also included are 142,986 shares that are held by The Charles H. Tenney, II 1995 Trust, of which Mr. Tenney is the co-trustee. Mr. Tenney has shared voting power and shared dispositive power with respect to such shares and a 50% pecuniary interest in such shares. Does not include (i) 7,378 shares that are held by The Tenney Trust or (ii) 2,261 shares that are held by The Trust under the Will of Charles H. Tenney, II, in each case in which Mr. Tenney has a pecuniary interest in such shares but does not have voting power or dispositive power with respect to such shares.
- (4) Included are 3,006 shares that are held in trust for Mr. Schoenberger under the terms of the 401(k). Mr. Schoenberger has voting power only with respect to the shares credited to his account. Also included are 60,000 fully vested option shares that Mr. Schoenberger has the right to purchase upon the exercise of that option under the terms of the Company's 1998 Stock Option Plan, and 11,475 shares of unvested restricted stock granted under the terms and conditions of the Company's Restricted Stock Plan.
- (5) Included are 1,589 shares that are held in trust for Mr. Collin under the terms of the 401(k). Mr. Collin has voting power only with respect to the shares credited to his account. Also included are 5,000 option shares that Mr. Collin has the right to purchase upon the exercise of that option under the terms of the Company's 1998 Stock Option Plan, and 3,684 shares of unvested restricted stock granted under the terms and conditions of the Company's Restricted Stock Plan.
- (6) Included are 588 shares that are held in trust for Mr. Meissner under the terms of the 401(k). Mr. Meissner has voting power only with respect to the shares credited to his account. Also included are 3,000 option shares that Mr. Meissner has the right to purchase upon the exercise of that option under the terms of the Company's 1998 Stock Option Plan, and 3,834 shares of unvested restricted stock granted under the terms and conditions of the Company's Restricted Stock Plan.
- (7) Included are 7,500 option shares that Mr. Gantz has the right to purchase upon the exercise of that option under the terms of the Company's 1998 Stock Option Plan, and 2,150 shares of unvested restricted stock granted under the terms and conditions of the Company's Restricted Stock Plan.
- (8) Included are 737 shares that are held in trust for Mr. Black under the terms of the 401(k). Mr. Black has voting power only with respect to the shares credited to his account. Also included are 6,000 option shares that Mr. Black has the right to purchase upon the exercise of that option under the Company's 1998 Stock Option Plan, and 1,351 shares of unvested restricted stock granted under the terms and conditions of the Company's Restricted Stock Plan.
- (9) Included are 93,500 option shares that Executive Officers have the right to purchase upon the exercise of options under the terms of the Company's 1998 Stock Option Plan, and 26,020 shares of unvested restricted stock granted under the terms and conditions of the Company's Restricted Stock Plan. No Director or executive officer has pledged any shares of Common Stock.

Table of Contents

Forward-Looking Statements

This proxy statement, the documents incorporated by reference into this proxy statement, and the documents accompanying this proxy statement may contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Other than statements of historical fact, all statements included in, incorporated by reference into, or accompanying this proxy statement are forward-looking statements including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company's future operations. These forward-looking statements include declarations regarding the Company's beliefs and current expectations. In some instances, these forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, 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 the following:

the Company's ability to integrate the business, operations, and personnel of Northern Utilities and Granite State following the consummation of the Proposed Acquisitions, as described in the section entitled *The Proposed Acquisitions*;

the ability of the Company, Northern Utilities, and Granite State to retain their existing customers and gain new customers prior to and following the Proposed Acquisitions;

variations in weather;

changes in the regulatory environment;

customers' preferences for energy sources;

interest rate fluctuation and credit market concerns;

general economic conditions;

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

increased competition; and

customers' future performance under multi-year energy brokering contracts.

Further information on risks and uncertainties are included in the section entitled *Risks Relating to the Proposed Acquisitions* and in the Company's periodic reports filed with the SEC, including, without limitation, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and the Company's Quarterly Report on Form 10-Q for fiscal quarter ended March 31, 2008. Many of these risks and uncertainties 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

Table of Contents

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.

Table of Contents**Risks Relating to the Proposed Acquisitions**

The proposed sale and issuance of Common Stock will dilute the holdings of the Company's current shareholders who continue to hold their shares of Common Stock. As of the Record Date, the Company had _____ shares of Common Stock outstanding. If the proposed sale and issuance of Common Stock is consummated, the Company will have approximately _____ shares of Common Stock outstanding. As a result, the Company's shareholders proportionate holding in the Company would be diluted by approximately ____%.

If the Company is not successful in effectively integrating Northern Utilities and Granite State, the Company may not be able to operate cost-efficiently after the Proposed Acquisitions. Achieving the benefits of the Proposed Acquisitions will depend in part on the successful integration of Northern Utilities' and Granite State's operations, services, and personnel with those of the Company in a timely and efficient manner. Integration involves the integration of systems, applications, policies, procedures, business processes, and other operations and requires coordination of administrative staff (e.g., human resources, customer service, regulatory services, information technology, accounting and finance, accounts receivable, and accounts payable) and development and engineering teams. Integration may be difficult, unpredictable, and subject to delay because of possible cultural conflicts and differing opinions. If the Company cannot successfully integrate the operations, services, and personnel of Northern Utilities and Granite State, the Company will not realize the expected benefits of the merger, including reduced operating expenses and cash flow savings, and may not be able to operate cost-efficiently.

Integrating the companies may divert management's attention away from operations. Successful integration of Northern Utilities' and Granite State's operations, services, and personnel with those of the Company may place a significant burden on the Company's management and internal resources. The diversion of management attention and any difficulties encountered in the integration process could harm the business, financial condition and operating results of each of the companies prior to the consummation of the Proposed Acquisitions, and the Company after consummation of the Proposed Acquisitions.

The Company expects to incur significant costs integrating Northern Utilities and Granite State into the Company, and if such integration is not successful, the Company may not realize the expected benefits of the Proposed Acquisitions. The Company expects to incur significant costs integrating Northern Utilities' and Granite State's operations, services, and personnel with those of the Company. These costs may include costs for:

additional staff's salaries and benefits;

converting information systems;

combining gas operations; and

purchasing additional equipment.

The Company does not know whether it will be successful in these integration efforts or in consummating the Proposed Acquisitions and cannot assure its shareholders that it will realize the expected benefits of the Proposed Acquisitions.

Table of Contents

The Company's ability to obtain a reasonable rate plan for Northern Utilities and Granite State following the Proposed Acquisitions depends upon regulatory action under applicable statutes, rules, and regulations. The Company believes there is an opportunity to stabilize and improve the operating earnings of Northern Utilities and Granite State by executing a consistent and well-structured rate plan that will provide Northern Utilities and Granite State with a reasonable opportunity to earn their authorized rate of return. If the Company is unable to obtain approval of a reasonable rate plan, or is delayed in obtaining approval of a reasonable rate plan, it may not be able to improve the operating earnings of Northern Utilities and Granite State.

The trading price of the Common Stock after consummation of the Proposed Acquisitions may be affected by factors different from those currently affecting the trading price of the Common Stock. The Proposed Acquisitions will increase the Company's assets by 51%, increase the Company's customer base by approximately 52,000 to 167,000 customers, and further diversify the Company's operations with respect to geography (into Maine) and utility mix (between the Company's gas and electric divisions). Therefore, after consummating the Proposed Acquisitions, the results of operations of the Company, as well as the trading price of the Common Stock, may be affected by factors different from those currently affecting the results of operations and the trading price of the Common Stock.

The shares of Common Stock that are sold and issued to partially finance the Proposed Acquisitions will be eligible for future sale and the sale of those shares could adversely affect the price of the Common Stock. The Company intends to sell and issue up to 4,000,000 shares of Common Stock in a public offering to partially finance the Proposed Acquisitions, and these shares will be eligible for immediate public resale, which could adversely affect the price of the Common Stock if a significant portion of these shares were to be offered for sale at any given time.

If the conditions to the closing of the Proposed Acquisitions are not met, the Proposed Acquisitions may not occur or may be delayed, which could cause the price of the Common Stock to decline and harm the Company's business. Specified conditions must be satisfied or waived before the Proposed Acquisitions can be completed. These conditions are summarized in the section in this proxy statement entitled *The Proposed Acquisitions Description of the Proposed Acquisitions* and are described in detail in the Stock Purchase Agreement. The Company cannot assure shareholders that each of these conditions will be satisfied or waived. If the conditions are not satisfied or waived, the Proposed Acquisitions may not occur or may be delayed, which may cause the Company to lose some or all of the intended or perceived benefits of the Proposed Acquisitions, which could cause the price of the Common Stock to decline and harm the Company's business. In addition, if the Proposed Acquisitions are not completed for any reason, the price of the Common Stock may decline to the extent that it currently reflects a market assumption that the Proposed Acquisitions will be completed.

If the Company's shareholders do not approve the increase to the authorized number of shares of Common Stock, or if the Company is unable to sell sufficient shares of Common Stock to partially finance the Proposed Acquisitions, the Company must still consummate the Proposed Acquisitions and will need to incur additional indebtedness to do so. The Company intends to sell and issue up to 4,000,000 shares of Common Stock in a public offering to finance approximately 50% of the acquisition price of the Proposed Acquisitions. At present, the Company's authorized shares of Common Stock available for issuance are insufficient for this purpose. If Proposal No. 1 is not approved by the Company's shareholders, or if Proposal No. 1 is approved but the public

Table of Contents

offering is delayed or is not completed in whole or in part for any reason, then the Company must still consummate the Proposed Acquisitions by incurring additional indebtedness. While the Company has an available bridge credit facility that it can use to finance the Proposed Acquisitions, the term of the facility is up to eleven months, which may be an insufficient amount of time for the Company to arrange alternative financing. In addition, changes in interest rates may affect the interest rate and corresponding interest expense associated with this additional indebtedness. Increases in interest rates generally will increase the Company's financing costs associated with the Proposed Acquisitions and could adversely affect the financial condition and results of operations for the Company after consummation of the Proposed Acquisitions.

Increases in interest rates could have a negative effect on the Company's cost to finance a portion of the Proposed Acquisitions with new long-term debt. The Company plans to finance approximately 50% of the acquisition price with the issuance of new long-term debt securities at the subsidiary level. Changes in interest rates may affect the interest rate and corresponding interest expense associated with the cost of this new debt. Increases in interest rates generally will increase the Company's financing costs associated with the Proposed Acquisitions and could adversely affect the financial condition and results of operations for the Company after consummation of the Proposed Acquisitions.

The Proposed Acquisitions will result in significant costs to the Company, whether or not they are completed, which will result in a reduction in the Company's income and cash flows. The Company will be required to pay its costs relating to the Proposed Acquisitions even if the Proposed Acquisitions are not completed and such costs will be significant. Most of these costs will be incurred whether or not the Proposed Acquisitions are completed. Incurring these costs will cause a reduction in the Company's income and cash flows.

The Company could be exposed to unknown liabilities of Northern Utilities and Granite State, which could cause it to incur substantial financial obligations and harm its business. If Northern Utilities and Granite State have liabilities of which the Company is not aware, the Company would assume those liabilities and may have limited recourse against NiSource and Bay State. If such unknown liabilities exist and the Company is not fully indemnified for any loss that it incurs as a result thereof, the Company could incur substantial financial obligations, which could adversely affect its financial condition and harm its business.

Table of Contents

Proposal No. 1

Amendment of the Articles of Incorporation

On January 17, 2008, subject to shareholder approval and adoption, the Board of Directors approved and adopted an amendment to the Company's Articles of Incorporation, as amended, to increase the authorized number of shares of Common Stock from 8,000,000 shares to 16,000,000 shares in the aggregate (the Amendment). The full text of the Amendment is included as Annex A to this proxy statement. Shareholder approval of the Amendment is required by the terms of the Company's Articles of Incorporation, as amended, and the New Hampshire Business Corporation Act.

The Company's authorized Common Stock consists of 8,000,000 shares. As of the Record Date, (i) _____ shares of Common Stock were issued and outstanding and (ii) _____ shares of Common Stock were reserved for issuance under the Company's 1998 Stock Plan, Restricted Stock Plan, 401(k) and Dividend Reinvestment and Stock Purchase Plan. As a result, as of the Record Date, only _____ shares of Common Stock were available for issuance.

Title and Amount of Securities to be Authorized

The Board of Directors requests that shareholders authorize 8,000,000 additional shares of Common Stock.

Preemptive and Other Rights

The additional 8,000,000 shares of Common Stock will have the same rights and privileges as the shares of Common Stock presently issued and outstanding. Each holder of Common Stock is entitled to one vote per share on all matters submitted to a vote of shareholders. The Common Stock does not have cumulative voting rights. The holders of Common Stock share ratably on a per share basis in any dividends when and if declared by the Board of Directors out of funds legally available therefor and in all assets remaining after the payment of liabilities in the event of the liquidation, dissolution or winding up of the Company. There are no preemptive or other subscription rights, conversion rights or redemption or sinking fund provisions with respect to the Common Stock.

The proposed Amendment will not affect the rights of existing holders of Common Stock except that the issuance of additional shares of Common Stock will reduce each existing shareholder's proportionate ownership of the Company.

Description of the Transaction in which the Securities are to be Issued

Of the 8,000,000 additional shares of Common Stock, the Company intends to sell and issue up to 4,000,000 shares in a public offering to partially finance the Proposed Acquisitions. At present, the Company's authorized shares of Common Stock available for issuance are insufficient for this purpose. In addition, at least _____ shares of Common Stock will be available for other future business purposes, including, without limitation, other future financings, other acquisitions,

Table of Contents

business combinations, recapitalizations, equity compensation plans, contractual commitments, stock dividends, and stock splits, without the expense or delay attendant in seeking shareholder approval at a special or annual meeting at a time when such shares would be needed (except as may be required by law or by any stock exchange or over-the-counter market on which the Company's securities may then be listed).

If the shareholders approve and adopt the Amendment, approximately _____ shares of Common Stock will be available for issuance under the Company's Articles of Incorporation, as amended. Except in connection with financing the Proposed Acquisitions, the Board of Directors has no immediate plans, intentions, or commitments to issue additional shares of Common Stock for any purpose, including, without limitation, rendering more difficult or discouraging a merger, tender offer, proxy contest or other change in control of the Company (collectively Change in Control Transactions). However, the availability of additional authorized shares of Common Stock could render more difficult, discourage, or delay a Change in Control Transaction, which may adversely affect the ability of the Company's shareholders to obtain a premium for their shares of Common Stock. The Board of Directors is not aware of any pending or proposed Change in Control Transactions.

No further shareholder authorization will be sought for issuances of additional authorized shares of Common Stock unless deemed advisable by the Board of Directors or required by law, rule, or regulation. In some instances, the SEC or stock exchanges or over-the-counter markets on which the Company's securities may then be listed may need to approve such issuances.

Approval and Adoption of the Amendment

The Amendment will be approved and adopted if the votes cast favoring such approval and adoption exceed the votes cast opposing such approval and adoption.

After careful consideration of all relevant factors, the Board of Directors determined that the Amendment is fair to, and in the best interests of, the Company and its shareholders. The Board of Directors unanimously recommends a vote **FOR** approval and adoption of the Amendment.

Table of Contents

The Proposed Acquisitions

The following is a summary of the material terms of, and other information relating to, the Proposed Acquisitions. This summary is not complete, may not contain all of the information that is important to the Company's shareholders, and is qualified in its entirety by reference to additional information in this proxy statement and to the complete text of the Stock Purchase Agreement. A copy of the Stock Purchase Agreement was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on February 20, 2008 and is incorporated herein by reference.

Description of the Proposed Acquisitions

On February 15, 2008, the Company, NiSource, and Bay State entered into the Stock Purchase Agreement pursuant to which the Company agreed to acquire (i) all of the outstanding shares of capital stock of Northern Utilities from Bay State and (ii) all of the outstanding shares of capital stock of Granite State from NiSource. In consideration for the Proposed Acquisitions, the Company will pay NiSource and Bay State an aggregate of \$160 million in cash, subject to a working capital adjustment.

The Proposed Acquisitions are expected to close during the fourth quarter of 2008, however there is no assurance that the Proposed Acquisitions will close at that time. The Proposed Acquisitions are subject to certain regulatory requirements and approvals and customary closing conditions. The regulatory requirements and approvals include:

- (i) approval by the Maine Public Utilities Commission;
- (ii) approval by the New Hampshire Public Utilities Commission;
- (iii) compliance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, with respect to which early termination of the waiting period was granted effective May 19, 2008;
- (iv) compliance with the Securities Exchange Act of 1934, as amended; and
- (v) review by certain federal, state or local regulatory bodies, including the Federal Communications Commission.

The respective obligation of each of the Company, NiSource, and Bay State to consummate the Proposed Acquisitions is subject to the satisfaction or waiver of certain closing conditions, including:

- (i) regulatory requirements and approvals;
- (ii) obtaining certain third-party consents;
- (iii) the Company, NiSource, and Bay State entering into a transition services agreement; and

Table of Contents

- (iv) no court or governmental entity having enacted, issued, promulgated, enforced or entered any statute, law, ordinance, rule, regulation, judgment, decree, injunction or other order restraining, enjoining, or otherwise prohibiting consummation of the Proposed Acquisitions.

In addition, the obligation of the Company to consummate the Proposed Acquisitions is subject to the satisfaction or waiver of certain closing conditions, including:

- (i) the representations and warranties of NiSource and Bay State being true and correct except as would not have, individually or in the aggregate, a material adverse effect on Northern Utilities and Granite State or on the ability to consummate the Proposed Acquisitions (subject to certain exceptions);
- (ii) NiSource and Bay State performing in all material respects all the covenants and agreements required to be performed by them under the Stock Purchase Agreement; and
- (iii) NiSource, Bay State, Northern Utilities, or Granite State delivering certain closing documents to the Company.

Additionally, the obligation of NiSource and Bay State to consummate the Proposed Acquisitions is subject to the satisfaction or waiver of certain closing conditions, including:

- (i) the representations and warranties of the Company being true and correct except as would not have, individually or in the aggregate, a material adverse effect on the ability to consummate the Proposed Acquisitions;
- (ii) the Company performing in all material respects all the covenants and agreements required to be performed by it under the Stock Purchase Agreement; and
- (iii) the Company delivering certain closing documents to NiSource and Bay State.

The Stock Purchase Agreement provides that NiSource and Bay State will indemnify the Company for certain losses as described therein. The indemnification provided by NiSource and Bay State is subject to (i) a per claim minimum indemnification limit of \$100,000, (ii) an aggregate claims minimum indemnification limit of 1% of the purchase price, and (iii) an aggregate claims maximum indemnification limit of 10% of the purchase price (other than the tax indemnification provided by NiSource and Bay State, which is not subject to any dollar limit). For detailed information regarding indemnification obligations, please see the Stock Purchase Agreement, a copy of which was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on February 20, 2008 and is incorporated herein by reference.

Background of the Proposed Acquisitions

The Company's strategic focus has been on serving the seacoast and capital regions of New Hampshire and the north central region of Massachusetts as efficiently and effectively as possible. While acquisitions have not been a major part of this strategy in recent years, the Board of Directors and management of the Company realize that certain opportunities to expand the Company's business in this market through acquisitions can help it meet its strategic goal.

Table of Contents

In light of the size, service territory and business mix of Northern Utilities and Granite State discussed in more detail in the section entitled "Reasons for Engaging in the Proposed Acquisitions," management has long considered Northern Utilities and Granite State as an acquisition opportunity that could further the Company's strategy. Over the past five years, Robert G. Schoenberger, the Chairman and Chief Executive Officer of the Company, periodically contacted the Chief Executive Officer of NiSource to ask whether NiSource would have any interest in selling Northern Utilities and Granite State. Management discussed this potential opportunity with the Board of Directors periodically. Throughout this time period, the Company consulted RBC Capital Markets Corporation (RBC) with respect to financial matters and Dewey & LeBoeuf LLP with respect to legal matters relating to the Proposed Acquisitions. On September 21, 2006, the Company and NiSource entered into a confidentiality agreement pursuant to which NiSource could provide confidential information regarding Northern Utilities and Granite State to the Company in connection with a potential acquisition. Shortly after preliminary diligence regarding this potential acquisition commenced, NiSource informed the Company that its strategic focus had shifted and it was not prepared to commence negotiations for the sale of Northern Utilities and Granite State at that time. At that time, the Company indicated that it remained interested should NiSource decide it was ready to sell Northern Utilities and Granite State.

On October 3, 2007, Mr. Schoenberger received a call from The Blackstone Group stating that The Blackstone Group had been engaged by Bay State, the wholly owned subsidiary of NiSource that directly owns Northern Utilities, to run an auction process for the sale of Northern Utilities. Mr. Schoenberger indicated that the Company was still interested in Northern Utilities and, on October 5, 2007, the Company and Bay State entered into a confidentiality agreement in connection with the proposed auction of Northern Utilities and received a confidential information memorandum regarding Northern Utilities. For the next month, the Company and its advisors conducted preliminary diligence on Northern Utilities. During this time, the Company continued consultation with RBC as its financial advisor. The Company also engaged Dewey & LeBoeuf LLP as its legal advisor for the potential acquisition. On October 25, 2007, the Company received an instruction letter from The Blackstone Group inviting preliminary indications of interest for Northern Utilities on or before November 14, 2007. Management reported to the Board of Directors of the Company on the process established by Bay State for the auction as well as the results of the preliminary due diligence that had been performed on Northern Utilities. On November 14, 2007, the Company submitted its preliminary indication of interest in acquiring Northern Utilities to The Blackstone Group, including a letter from RBC and Royal Bank of Canada that they were highly confident that they would be able to provide the Company with the financing necessary for the proposed acquisition.

On November 20, 2007, the Company received a letter from The Blackstone Group inviting the Company to participate in additional diligence with a view towards making a definitive offer for Northern Utilities. The Company and its representatives were given access to an electronic data room containing diligence material on Northern Utilities. On November 28, 2007, Mr. Schoenberger, Mark H. Collin (Senior Vice President, Chief Financial Officer, and Treasurer of the Company), Thomas P. Meissner, Jr. (Senior Vice President and Chief Operating Officer of the Company), George E. Long, Jr. (Vice President of Administration of the Company), George R. Gantz (Senior Vice President of Customer Service and Communications of the Company), Laurence M. Brock (Chief Accounting Officer and Controller of the Company), and Raymond J. Morrissey (Vice President of Information Systems of the Company), together with representatives from RBC and Dewey & LeBoeuf LLP, attended a diligence presentation given by executives of Bay State regarding Northern Utilities' operations. Also in attendance at this session were

Table of Contents

representatives of NiSource and The Blackstone Group. At this meeting, NiSource confirmed that it would accept bids for Granite State as well as Northern Utilities.

On December 21, 2007, the Company received a letter from The Blackstone Group inviting it to submit a definitive bid for the purchase of Northern Utilities and/or Granite State by January 18, 2008. Accompanying this letter was a draft of the Stock Purchase Agreement. The Company continued to conduct due diligence until the definitive bids were due. On January 14, 2008, the Company formally engaged RBC as its financial advisor for the potential acquisitions.

At meetings held on January 16 and 17, 2008, the Board of Directors met to consider the submission of a definitive proposal for the acquisition of Northern Utilities and Granite State. Representatives of Dewey & LeBoeuf LLP discussed the fiduciary duties of the Board of Directors in considering the submission of a bid for and subsequent acquisition of Northern Utilities and Granite State. Management reviewed the final results of the due diligence investigation on Northern Utilities and Granite State, the strategic benefits and risks of the Proposed Acquisitions and the terms of the bid, including the terms of the proposed Stock Purchase Agreement to be included as part of the bid package. RBC discussed the current utility mergers and acquisition market, and the results of its financial review of Northern Utilities and Granite State based in part on the financial forecasts of Northern Utilities and Granite State, as revised by the Company's management to reflect its diligence results. RBC also outlined the proposed financing for the Proposed Acquisitions. After considering these discussions as well as the recommendation of the Company's management, the Board of Directors authorized management to submit a bid and, if successful, to negotiate the final terms of the Proposed Acquisitions. On January 18, 2008, the Company submitted a definitive bid to acquire Northern Utilities and Granite State at a price of \$160 million in cash, subject to a working capital adjustment. Subsequently, at the request of The Blackstone Group, the Company submitted a draft of the commitment letter from Royal Bank of Canada regarding an interim debt facility for the Company to finance the Proposed Acquisitions.

On January 25, 2008, Messrs. Schoenberger and Collin received a call from The Blackstone Group informing them that the Company's bid was competitive but that The Blackstone Group and its clients had several high-level questions regarding some of the Company's requested terms in the draft Stock Purchase Agreement, which needed to be clarified before its clients could determine whether the Company was the final preferred bidder. The Blackstone Group indicated that the process remained competitive. The Company provided its initial responses to the questions later that evening and continued to provide further detail to The Blackstone Group as requested throughout the following week. The Blackstone Group informed the Company that, in addition to the high-level issues, its clients would have additional comments on the draft Stock Purchase Agreement and related documents that would appear in a revised draft of the Stock Purchase Agreement to be circulated by its clients.

On February 5, 2008, the Company received a revised draft of the Stock Purchase Agreement for the Proposed Acquisitions from NiSource and its counsel. For the next ten days, Messrs. Schoenberger and Collin had numerous negotiation calls with The Blackstone Group regarding the remaining open issues on the terms of the Proposed Acquisitions. On February 8, 2008, the Company sent The Blackstone Group its revised draft of the Stock Purchase Agreement, as well as its comments on related disclosure documents and a revised draft of the Royal Bank of Canada's commitment letter. Messrs. Schoenberger and Collin had negotiation calls with The Blackstone Group on February 12

and 13, 2008 with respect to the material that the Company sent to them on February 8, 2008. On February 14 and 15, 2008, the parties exchanged additional drafts

Table of Contents

of the transaction documentation and each of the Company and NiSource and their respective counsels discussed the open issues in the transaction documents and process for announcing the potential transaction. Concurrently, the Company finalized the terms of the Royal Bank of Canada's commitment letter discussed above and also entered into an engagement letter with RBC regarding its role as one of the lead managers in any debt and/or equity offering by the Company or Northern Utilities for purposes of the permanent financing of the Proposed Acquisitions.

On February 15, 2008, Messrs. Schoenberger and Collin communicated with the members of the Board of Directors regarding the final terms of the transaction. RBC also delivered its opinion that the terms of the Proposed Acquisitions were fair, from a financial point of view, to the Company. Later that evening, the Company, NiSource and Bay State executed the Stock Purchase Agreement.

Reasons for Engaging in the Proposed Acquisitions; Estimated Potential Synergies Attributable to the Proposed Acquisitions

The Board of Directors believes that the Proposed Acquisitions and related transactions will result in the following significant benefits to the Company:

Strategically Attractive Growth Opportunity Consistent with the Company's Strategy. Northern Utilities and Granite State provide an attractive opportunity for the Company to grow its operations within coastal northern New England. Northern Utilities will bring approximately 52,000 additional natural gas retail distribution customers, which will increase the Company's domestic retail customer base to approximately 167,000 customers in the coastal New England region. Given the lower penetration of gas distribution customers among the population in Northern Utilities' service territory, the Company believes there are significant opportunities for it to expand Northern Utilities' operations, particularly in light of the Company's customer driven expertise in serving rural and small metropolitan areas such as Northern Utilities' service territory. Additionally, Northern Utilities will provide further diversification to the Company's operations with respect to geography (into Maine) and utility business mix (between the Company's gas and electric divisions).

Increased Financial Strength and Stability. The Proposed Acquisitions will increase the Company's assets by approximately 51% and its customer base by approximately 52,000 retail customers. Additionally, the proposed equity issuance by the Company to finance a portion of the purchase price for Northern Utilities and Granite State is expected to lead to increased market capitalization for the Company and increased liquidity for the shareholders of the Company, as well as a more diversified shareholder base. As a result, the Company and its shareholders should benefit from the long-term financial stability of a larger, more liquid company.

Reduced Operating Expenses and Cash Flow Savings. As a result of the Proposed Acquisitions, the Company should benefit from operating efficiencies obtained from economies of scale and should be

able to make more efficient use of its personnel, infrastructure and information systems. The Company has projected that the Proposed Acquisitions would produce system-wide synergies of approximately \$5.4 million beginning in the first full year after integration. These projected savings are primarily

Table of Contents

due to the achievement of efficiencies associated with the provision of shared utility services and the adoption of best practices associated with these shared utility services.

Opportunity for improved regulated utility operating earnings through the execution of the Company's Regulatory Plan. The Company believes there is an opportunity to stabilize and improve the operating earnings of Northern Utilities and Granite State by executing a consistent and well-structured regulatory plan that provided Northern Utilities and Granite State with a reasonable opportunity to earn their authorized rate of return. Northern Utilities has not sought base rate relief since 1983 in Maine or since 2002 in New Hampshire. The Company's regulatory plan will seek to ensure that Northern Utilities and Granite State have a reasonable opportunity to earn their authorized rate of return.

The Board of Directors also believes that the Proposed Acquisitions and related transactions will result in the following significant benefits to the Company's other stakeholders:

Increased Commitment to Local Communities. The Company expects the Proposed Acquisitions to increase its commitment to local communities in New Hampshire and Maine through the creation of employment opportunities and the expansion of the Company's local presence. The Company anticipates retaining all of Northern Utilities' 78 current employees and estimates that it will add more than 40 new positions following the Proposed Acquisitions, primarily in the areas of gas operations and customer service.

Improved Customer Convenience and Service. The Company anticipates that the overlap between portions of the Company's electric service territory in southeastern New Hampshire and portions of Northern Utilities' natural gas service territory will increase the convenience for many customers of Northern Utilities who will be doing business with a single gas and electric distribution utility following the Proposed Acquisitions. Additionally, the Company estimates that it will add several new positions to its customer service department following the Proposed Acquisitions.

Recommendations of the Board of Directors

The Board of Directors unanimously recommends that the shareholders vote **FOR** the approval and adoption of the Amendment, which is further discussed in the section entitled *Proposal No. 1 Amendment to the Articles of Incorporation*. The Amendment will permit the Company to sell and issue Common Stock to finance a portion of the purchase price for Northern Utilities and Granite State. In determining to approve and adopt, and recommend that shareholders approve and adopt, the Amendment, and in reaching its determination that the Amendment and the Proposed Acquisitions are in the best interest of the Company, its shareholders, customers and employees, the Board of Directors consulted with and relied upon information and reports prepared or presented by the Company's management and legal and financial advisors. The following are the material factors considered by the Board of Directors, some of which contained both positive and negative elements:

growth opportunities in coastal northern New England, including the areas where Northern Utilities customers are located;

Table of Contents

current industry economic, market, and regulatory conditions in Northern Utilities and Granite State's service territory;

the fact that the proposed equity issuance will increase the Company's public float and should provide increased liquidity for the Company's current shareholders;

the fact that the equity issuance will dilute the holdings of the Company's current shareholders who continue to hold their shares of Common Stock;

the terms of the Stock Purchase Agreement;

the regulatory treatment to be requested in connection with the Proposed Acquisitions and the likelihood of receipt of timely and satisfactory regulatory approvals;

the risk of fluctuations in the price of the Common Stock and in the debt markets for senior unsecured debt prior to consummation of the Proposed Acquisitions that could impact the effective price paid by the Company for Northern Utilities and Granite State;

the risk that the Proposed Acquisitions would not be consummated;

the substantial management time and effort that will be required to consummate the Proposed Acquisitions and integrate the business, operations, and personnel of Northern Utilities and Granite State and the risks inherent with such integration;

other matters described in the section entitled *Forward-Looking Statements; Risks*;

the favorable results of the Company's due diligence review of Northern Utilities and Granite State; and

the opinion of RBC, the Company's financial advisor, that as of the date of the opinion and subject to the considerations described therein, the purchase price to be paid by the Company in connection with the Proposed Acquisitions was fair, from a financial point of view, to the Company.

The foregoing discussion of the information and factors considered by the Board of Directors is not intended to be all-inclusive. In view of the wide variety of factors considered in connection with its evaluation of the Proposed Acquisitions and related transactions, the Board of Directors did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the foregoing factors. Rather, the Board of Directors based its recommendation on the totality of the information presented to and considered by it.

Opinion of the Company's Financial Advisor

On February 15, 2008, as financial advisor to the Company, RBC rendered and delivered its written opinion to the Company's Board of Directors that, as of that date and subject to the assumptions, qualifications and limitations set forth in its opinion, the \$160 million in cash, subject to a working capital adjustment, (the Purchase Price) to be paid by the Company in connection with the purchase of all of the outstanding shares of Northern Utilities from Bay State, a subsidiary

Table of Contents

of NiSource, and all of the outstanding shares of Granite State from NiSource, in the Proposed Acquisitions was fair, from a financial point of view, to the Company. The full text of RBC's opinion is attached to this proxy statement as Annex G. RBC's opinion was approved by the RBC M&A Fairness Opinion Committee. RBC has consented to the inclusion of its opinion in this proxy statement. **This summary of RBC's opinion is qualified in its entirety by reference to the full text of the opinion.**

RBC's opinion is addressed solely to the fairness of the Purchase Price for the Proposed Acquisitions, from a financial point of view, to the Company and did not in any way address other terms or arrangements related to the Proposed Acquisitions or the Stock Purchase Agreement, including, without limitation, the terms of any other agreement contemplated by, or to be entered into in connection with, the Stock Purchase Agreement.

RBC's opinion does not address (1) the proposed issuance of shares of Common Stock to partially finance the Proposed Acquisitions, (2) the proposed issuance of debt securities to partially finance the Proposed Acquisitions or (3) any other financing transaction relating to the Proposed Acquisitions. RBC's opinion does not constitute a recommendation to the Company shareholders as to how they should vote with respect to the proposed amendment to the Company's Articles of Incorporation, as amended, to increase the authorized number of shares of Common Stock.

RBC's opinion was provided for the information and assistance of the Company's Board of Directors in connection with its consideration of the Stock Purchase Agreement. RBC's opinion did not address the Company's underlying business decision to engage in the Proposed Acquisitions or the relative merits of the Proposed Acquisitions compared to any alternative business strategy or transaction in which the Company might engage. RBC's opinion was only one factor taken into consideration by the Company's Board of Directors in making its determination to approve the Proposed Acquisitions.

In rendering its opinion, RBC assumed and relied upon the accuracy and completeness of the information that was publicly available to it and all of the financial, legal, tax, accounting, operating and other information provided to RBC by NiSource and the Company (including, without limitation, the financial statements and related notes thereto of the Company, Northern Utilities and Granite State), and has not assumed responsibility for independently verifying and has not independently verified such information. RBC has assumed that all projections and forecasts provided to it by the Company (including projections relating to Northern Utilities and Granite State, as provided by NiSource to the Company and adjusted by the Company's management, as well as projections with respect to certain synergies (including, without limitation, revenue and cost synergies) expected by the Company to be realized from the Proposed Acquisitions) were reasonably prepared and reflected the best currently available estimates and good faith judgments of the future financial performance of the Company, Northern Utilities and Granite State, respectively, as standalone entities (or, in the case of projected synergies, as a combined company). In its analyses, RBC utilized pro forma projections and forecasts provided to it by the Company, which Company management adjusted and added cost and revenue synergies based on its due diligence findings and third party consultations. RBC did not provide any input nor did RBC opine on the validity of the adjustments or synergies and RBC expresses no opinion as to such projections and forecasts or the assumptions upon which they were based. Further, RBC did not investigate and made no assumptions regarding any litigation or other claims affecting the Company, Northern Utilities and Granite State.

Table of Contents

In rendering its opinion, RBC assumed that all conditions to the consummation of the Proposed Acquisitions would be satisfied without waiver, modification or amendment of any material term or condition and that the executed version of the Stock Purchase Agreement would not differ, in any respect material to its opinion, from the draft stock purchase agreement dated February 15, 2008.

RBC's opinion speaks only as of the date of such opinion, is based on the conditions as they existed and information which RBC had been supplied as of the date of the opinion, and is without regard to any market, economic, financial, legal, or other circumstances or event of any kind or nature which may exist or occur after such date. RBC has not undertaken to reaffirm or revise its opinion or otherwise comment upon events occurring after the date of the opinion and RBC does not have an obligation to update, revise or reaffirm its opinion. RBC expressed no opinion as to the prices at which the Company's common stock has traded or will trade following the announcement or consummation of the Proposed Acquisitions.

For purposes of its opinion, RBC assumed, in all respects material to its analysis, that in the course of obtaining any regulatory or third party consents, approvals or agreements in connection with the Proposed Acquisitions, no modification, delay, limitation, restriction, sharing of synergies or other financial benefits or conditions will be imposed that would have a material adverse effect on the Company or the contemplated benefits of the Proposed Acquisitions and that the Proposed Acquisitions will be consummated without waiver, modification or amendment of any material term or condition.

In connection with its review of the Proposed Acquisitions and the preparation of its opinion, RBC undertook the review and inquiries it deemed necessary and appropriate under the circumstances, including:

reviewed the financial terms of the draft stock purchase agreement dated February 15, 2008;

reviewed and analyzed certain publicly available financial and other data with respect to the Company, Northern Utilities and Granite State and certain other historical operating data relating to the Company, Northern Utilities and Granite State made available to RBC from published sources and from the internal records of the Company, NiSource, Northern Utilities and Granite State;

conducted discussions with members of the senior management of the Company, NiSource, Northern Utilities and Granite State with respect to the business prospects and financial outlook of the Company, Northern Utilities and Granite State without giving effect to the Proposed Acquisitions;

reviewed the reported prices and trading activity for the Company's common stock; and

performed other studies and analyses RBC deemed appropriate.

In arriving at its opinion, in addition to the review, inquiries and analyses listed above, RBC performed the following analyses:

compared selected market valuation metrics of Northern Utilities and Granite State and other publicly-traded companies with the financial metrics implied by the Purchase Price to be paid by the Company pursuant to the terms of the Stock Purchase Agreement;

Table of Contents

compared the financial metrics of selected precedent transactions, to the extent publicly available, with the financial metrics implied by the Purchase Price to be paid by the Company pursuant to the terms of the Stock Purchase Agreement; and

conducted a discounted cash flow analysis based on the projected financials of Northern Utilities and Granite State.

In connection with the rendering of its opinion to the Company's Board of Directors, RBC reviewed with the Company's Board of Directors the analyses listed above which formed the basis of the opinion. Set forth below is a summary of the analyses used by RBC, including information presented in tabular format. The tables alone do not constitute a complete description of the analysis, which is found in the full text of RBC's Fairness Opinion. RBC assumed for the purposes of its analyses that the closing date of the transaction will be December 31, 2008.

Comparable Company Analysis. RBC prepared a comparable company analysis of Northern Utilities and Granite State's enterprise value implied by the Purchase Price relative to a group of publicly-traded companies that RBC determined in its judgment to be comparable to Northern Utilities. In selecting publicly-traded companies, RBC considered various U.S. gas local distribution companies (LDC) comparable to Northern Utilities. In this analysis, RBC compared the enterprise value (EV) of Northern Utilities and Granite State implied by the Purchase Price to an EV range determined by applying the comparable companies' estimated calendar year 2007 earnings before interest, taxes, depreciation and amortization (EBITDA) minimum, median and maximum multiples to Northern Utilities and Granite State's 2007E EBITDA. RBC also compared the EV of Northern Utilities and Granite State implied by the Purchase Price to an EV range determined by applying the comparable companies' 2007E net income and expected net income growth rate from 2007-2011 (Price-to-Earnings-to-Growth) minimum, median and maximum multiples to Northern Utilities and Granite State's 2007E Price-to-Earnings-to-Growth ratio. Additionally, RBC compared the EV of Northern Utilities and Granite State implied by the Purchase Price to an EV range determined by applying the comparable companies' tangible book value minimum, median and maximum multiples to Northern Utilities and Granite State's projected tangible book value. Projections for Northern Utilities and Granite State were provided by NiSource and adjusted by the Company's management (as discussed above) and, in the case of the comparable companies, from SEC and other public filings, Wall Street research, Bloomberg, IBES, FactSet and ThomsonOne Analytics. RBC defined EV as equity value plus total debt, preferred stock and minority interest less cash, cash equivalents and marketable securities.

For the purposes of its Comparable Company Analysis, RBC reviewed the relevant metrics of the following publicly-traded companies:

AGL Resources, Inc.;

Atmos Energy Corp.;

Chesapeake Utilities Corp.;

Laclede Group, Inc.;

National Fuel Gas Company;

New Jersey Resources;

Northwest Natural Gas Co.;

Table of Contents

Piedmont Natural Gas Company;

South Jersey Industries;

Vectren Corp.; and

WGL Holdings Inc.

The following table presents, as of February 12, 2008, a comparison of the EV ranges calculated from the comparable companies' minimum, median and maximum EV-to-EBITDA, Price-to-Earnings-to-Growth (PEG) and Tangible Book Value multiples as applied to Northern Utilities and Granite State's financial results for the periods reviewed by RBC in connection with its analysis in relation to the transaction EV of Northern Utilities and Granite State of \$214.0 million as implied by the Purchase Price (RBC defined transaction EV as equity value, as implied by the Purchase Price, plus total debt, preferred stock and minority interest less cash, cash equivalents and marketable securities):

	Comparable Companies			Northern Utilities & Granite State
	Min.	Median	Max.	(EV Range Implied by Comparable Companies Multiples)
EV as a multiple of:				
2007E EBITDA	7.7x	8.6x	12.3x	\$133.7 - \$214.3 million
Equity Value as a multiple of:				
2007E PEG ratio	2.4x	3.4x	4.0x	\$281.7 - \$394.6 million
Tangible Book Value	1.2x	1.8x	2.3x	\$229.0 - \$332.0 million

RBC noted that: (1) the EV implied by the Purchase Price was within the observed range of enterprise values calculated from the comparable companies' 2007E EV-to-EBITDA multiples, but was above the median EV calculated from the comparable companies' median 2007E EV-to-EBITDA multiple; (2) the EV implied by the Purchase Price was below the observed range of enterprise values calculated from the comparable companies' 2007E PEG multiple and was below the median EV calculated from the comparable companies' median 2007E PEG multiple; and (3) the EV implied by the Purchase Price was below the observed range of enterprise values calculated from the comparable companies' tangible book value multiples and was below the median EV calculated from the comparable companies' median tangible book value multiple.

Precedent Transaction Analysis. RBC prepared a precedent transactions analysis of Northern Utilities and Granite State's enterprise value implied by the Purchase Price relative to selected publicly-announced precedent merger and acquisition transactions in the U.S. gas LDC sector. In selecting precedent transactions, RBC considered comparable transactions announced since January 1, 2004. In this analysis, RBC compared the EV of Northern Utilities and Granite State implied by the Purchase Price to an EV range determined by applying the precedent transactions' last twelve-months (LTM) EBITDA minimum, median and maximum multiples to Northern Utilities and Granite State's

LTM EBITDA. RBC used an adjusted EBITDA (adjusted to exclude non-cash and one-time charges) in calculating the LTM EBITDA multiples of the target companies for the last twelve months prior to the announcement of the transaction in order to normalize it relative to the Northern Utilities and Granite State figures. RBC also compared the EV of Northern Utilities and Granite State implied by the Purchase Price to an EV range determined by

Table of Contents

applying the precedent transactions' LTM Price-to-Earnings minimum, median and maximum multiples to Northern Utilities' and Granite State's LTM earnings. LTM Price-to-Earnings is equivalent to an Equity Value-to-Net Income multiple for private companies such as Northern Utilities and Granite State. Additionally, RBC compared the EV of Northern Utilities and Granite State implied by the Purchase Price to an EV range determined by applying the precedent transactions' tangible book value minimum, median and maximum multiples to Northern Utilities' and Granite State's projected tangible book value. Projections for Northern Utilities and Granite State were provided by NiSource and adjusted by the Company's management (as discussed above). Financial data regarding the precedent transactions was taken from SEC and other public filings, Wall Street research, Bloomberg, press releases and other publicly available sources. RBC defined EV as equity value plus total debt, preferred stock and minority interest less cash, cash equivalents and marketable securities.

Based on the criteria described above, the following fourteen transactions were analyzed for the purposes of RBC's Precedent Transactions Analysis:

New Mexico Gas Company's acquisition of PNM Resource's Natural Gas Operations;

SourceGas (affiliate of GE Financial Services and Alinda) acquisition of Southwestern Energy's Arkansas Western Gas Division;

Cap Rock Holding Corporation's acquisition of SEMCO Energy;

Black Hills Corporation's acquisition of Aquila, Inc.'s Colorado Electric Utility and Aquila, Inc.'s Colorado, Iowa, Kansas and Nebraska Gas Utilities;

GE Energy Financial Services and Alinda Investments LLC's acquisition of Kinder Morgan's Natural Gas Retail Distribution;

MDU Resources' acquisition of Cascade Natural Gas;

WPS Resources' acquisition of Peoples Energy;

National Grid USA's acquisition of Southern Union Company's Rhode Island Gas Assets;

UGI Corporation's acquisition of Southern Union Company's PG Energy Assets;

Empire District Electric Company's acquisition of Aquila, Inc.'s Missouri Gas Distribution;

WPS Resources acquisition of Aquila, Inc. s Minnesota Gas Distribution;

WPS Resources acquisition of Aquila, Inc. s Michigan Gas Distribution;

Kinder Morgan, Inc. s acquisition of Terasen, Inc.; and

ArcLight Capital Partners acquisition of Allegheny Energy s Mountaineer Gas Company.

Table of Contents

The following table presents a comparison of the EV ranges calculated from the precedent transactions' minimum, median and maximum EV-to-LTM EBITDA, Tangible Book Value, and Price-to-LTM Earnings multiples as applied to Northern Utilities' and Granite State's financial figures for the periods reviewed by RBC in connection with its analysis in relation to the transaction EV of Northern Utilities and Granite State of \$214.0 million as implied by the Purchase Price:

	Precedent Transactions			Northern Utilities & Granite State
	Min.	Median	Max.	(EV Range Implied by Precedent Transactions Multiples)
EV as a multiple of:				
LTM EBITDA	8.3x	10.0x	12.8x	\$143.7 - \$222.1 million
Price as a multiple of:				
LTM Earnings Per Share	23.7x	24.3x	32.7x	\$186.0 - \$213.1 million
Equity Value as a multiple of:				
Tangible Book Value	1.1x	1.9x	2.7x	\$217.3 - \$363.8 million

RBC noted that: (1) the EV implied by the Purchase Price was within the observed range of enterprise values calculated from the precedent transactions' LTM EV-to-EBITDA multiples, but was above the median EV calculated from the precedent transactions' median LTM EV-to-EBITDA multiple; (2) the EV implied by the Purchase Price was above the observed range of enterprise values calculated from the precedent transactions' LTM Price-to-Earnings multiple and was above the median EV calculated from the precedent transactions' median LTM Price-to-Earnings multiple; and (3) the EV implied by the Purchase Price was below the observed range of enterprise values calculated from the precedent transactions' tangible book value multiples and was below the median EV calculated from the precedent transactions' median tangible book value multiple.

Discounted Cash Flow Analysis. RBC performed a discounted cash flow analysis (DCF) of Northern Utilities and Granite State to calculate the estimated present value of the stand-alone, unlevered, after-tax free cash flows that Northern Utilities and Granite State could generate under the Company's control, based on (i) estimates of Northern Utilities and Granite State, provided by NiSource and adjusted by the Company's management (as discussed above), for EBITDA for each of the fiscal years 2008 through 2011, and (ii) the present value of the projected terminal value, based on a multiple of projected EBITDA for fiscal year 2011. RBC's terminal value uses a multiple of 2011 projected EBITDA to approximate the value of the stand-alone unlevered, after-tax free cash flows that could be generated by Northern Utilities and Granite State from fiscal 2012 onward.

A DCF is the present value of the projected unlevered free cash flows for the periods utilized using the indicated discount rate. Unlevered free cash flows are cash flows that would, prior to the servicing of the interest on the subject companies' outstanding debt, be available for distribution to the equity holders of the subject companies.

RBC's DCF analysis on Northern Utilities and Granite State was based on terminal value EBITDA exit multiples ranging from 9.0x to 11.0x. The projections of terminal value determined by EBITDA exit multiples were based upon RBC's review of the publicly available business and financial information related to the precedent transactions used in the Precedent Transaction

Table of Contents

section, and the respective financial and business characteristics of Northern Utilities and Granite State and the comparable publicly traded U.S. gas LDC companies used in the Comparable Company Analysis section. RBC also applied discount rates reflecting a weighted-average cost of capital (WACC) of 7.5% to 8.5%. RBC defined WACC as the cost of equity plus the after-tax cost of debt, adjusted to reflect an appropriate capital structure determined with reference to LDC industry norms. The range of discount rates used in this analysis was based on RBC's estimate of the equity cost of capital of Northern Utilities and Granite State after taking into account Bloomberg's estimated two-year betas of the selected comparable publicly traded U.S. gas LDC companies used in the Comparable Company Analysis section, as set forth above.

After adjusting for Northern Utilities' and Granite State's assumed leverage at close, these calculations indicated implied enterprise values for Northern Utilities and Granite State ranging from \$194.5 million to \$243.7 million, as compared to the transaction EV of Northern Utilities and Granite State of \$214.0 million as implied by the Purchase Price.

Overview of Analyses; Other Considerations. In reaching its opinion, RBC did not assign any particular weight to any one analysis or the results yielded by that analysis. Rather, having reviewed these results in the aggregate, RBC exercised its professional judgment in determining that, based on the aggregate of the analyses used and the results they yielded, the Purchase Price was fair, from a financial point of view, to the Company. RBC believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the analyses and, accordingly, also made qualitative judgments concerning differences between the characteristics of Northern Utilities and Granite State and the Proposed Acquisitions and the data selected for use in its analyses, as further discussed below.

No single company or transaction used in the above analyses as a comparison is identical to Northern Utilities and Granite State or the Proposed Acquisitions, and an evaluation of the results of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the Proposed Acquisitions, public trading or other values of the companies, businesses, or transactions analyzed. The analyses were prepared solely for purposes of RBC providing an opinion as to the fairness of the Purchase Price, from a financial point of view, to the Company and do not purport to be appraisals or necessarily reflect the prices at which businesses or securities actually may be sold, which are inherently subject to uncertainty.

The opinion of RBC as to the fairness to the Company, from a financial point of view, of the Purchase Price was necessarily based upon market, economic, and other conditions that existed as of the date of its opinion and on information available to RBC as of that date.