GEORGIA PACIFIC CORP
Form DEF 14A
March 28, 2003
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities

Exchange Act of 1934

Filed by the Registrant x

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))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

GEORGIA-PACIFIC CORPORATION

(Name of Registrant as specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

(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:

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March 26, 2003

Dear Fellow Shareholder:

You are invited to attend Georgia-Pacific Corporation s Annual Meeting of Shareholders at 11:00 a.m., Eastern time, on Tuesday, May 6, 2003. The Annual Meeting will be held in the Auditorium at Georgia-Pacific Center, 133 Peachtree Street, N.E., in Atlanta, Georgia. We hope you can attend.

We look forward to reporting to you on recent events at your Company as well as on other important matters. In addition, we will vote on the matters set forth in the attached Notice of Annual Meeting and Proxy Statement.

We have again provided to you the option of voting by mail, telephone or the Internet. Your vote is important. Even if you plan to attend the meeting, please vote as soon as possible.

Sincerely,

A. D. Correll

Chairman and Chief Executive Officer

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS MAY 6, 2003

TIME

11:00 a.m., Eastern time, on Tuesday, May 6, 2003

BUSINESS

(1) Elect 5 members of the Board of Directors.
(2) Consider and act on a proposal to (i) amend various Georgia-Pacific employee benefit plans to permit the exchange of outstanding stock options for a lesser number of shares of restricted stock and (ii) make an additional unrelated amendment to the Georgia-Pacific Corporation Long-Term Incentive Plan (the LTIP).
(3) Reapprove the LTIP s performance-based criteria in connection with Section 162(m) of the Internal Revenue Code of 1986, as amended.
(4) Consider and act on a proposal approving the amendment and restatement of one of our existing employee stock purchase plans that is limited to employees of select companies in which we have at least a 50% ownership interest.
(5) Consider and act on a shareholder proposal, if properly presented at the meeting, urging Georgia-Pacific to establish a policy prohibiting the harvesting and trading of products from primary, old growth or other endangered forests.
(6) Consider and act on a shareholder proposal, if properly presented at the meeting, requesting Georgia-Pacific s Board of Directors to amend the Company s Bylaws to require that an independent director serve as the Chairman of our Board of Directors.
(7) Consider and act on a shareholder proposal, if properly presented at the meeting, urging Georgia-Pacific to establish a policy of expensing the costs of all future stock options issued by the Company.

DOCUMENTS

The Proxy Statement, proxy card, Annual Review and our Annual Report on Form 10-K are included in this mailing. They are first being mailed to shareholders on or about March 31, 2003.

PLACE

The Auditorium at Georgia-Pacific Center

133 Peachtree Street, N.E.

Atlanta, Georgia

RECORD DATE

Owners of shares of common stock of Georgia-Pacific at the close of business on March 12, 2003 may attend and vote at the meeting.

EXECUTIVE OFFICES

Georgia-Pacific Corporation

133 Peachtree Street, N.E.

Atlanta, Georgia 30303-1847

VOTING

Even if you plan to attend the meeting in Atlanta, please provide us with your voting instructions in one of the following ways as soon as possible:

(1) Internet use the Internet address on the proxy card;
(2) Telephone use the toll-free number on the proxy card; or
(3) Mail mark, sign, and date the proxy card and return it in the enclosed postage-paid envelope.

By order of the Board of Directors,

Kenneth F. Khoury

Vice President, Deputy General Counsel and Secretary

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QUESTIONS AND ANSWERS

Q: Who is entitled to vote?

A: Georgia-Pacific shareholders of record as of the close of business on March 12, 2003 are entitled to vote at the Annual Meeting.

Q: What will I likely be voting on?

A: There are 7 proposals that may be voted on at the Annual Meeting:

- the election of 5 directors;
- a proposal to (i) amend various Georgia-Pacific employee benefit plans to permit the exchange of outstanding stock options for a lesser number of shares of restricted stock (the Option Exchange) and (ii) make an additional unrelated amendment to the Georgia-Pacific Corporation Long-Term Incentive Plan (the LTIP);
- a proposal to reapprove the LTIP s performance-based criteria in connection with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code);
- a proposal to approve the amendment and restatement of one of our existing employee stock purchase plans that is limited to employees of select companies in which we have at least a 50% ownership interest (the Employee Stock Purchase Plan);
- a shareholder proposal urging Georgia-Pacific to establish a policy prohibiting the harvesting and trading of products from primary, old growth or other endangered forests;
- a shareholder proposal requesting Georgia-Pacific s Board of Directors to amend the Company s Bylaws to require that an independent director serve as the Chairman of our Board of Directors; and
- a shareholder proposal urging Georgia-Pacific to establish a policy of expensing the costs of all future stock options issued by the Company.

The Board of Directors knows of no other matters to be voted on at the Annual Meeting.

Q: When and where is the Annual Meeting?

A: The Annual Meeting is scheduled to begin at 11:00 a.m. on Tuesday, May 6, 2003, in the Auditorium at Georgia-Pacific Center, 133 Peachtree Street, N.E., in Atlanta, Georgia.

Q: What are the Board s recommendations?

A: In summary, the Board of Directors recommends a vote:

- FOR the election of the nominated slate of directors (see pages 5-6);
- FOR the approval of the amendments to benefit plans to implement the Option Exchange and to make an additional unrelated amendment to the LTIP (see pages 28-40);
- FOR the reapproval of the LTIP s performance-based criteria in connection with Section 162(m) of the Code (see page 41);

- n FOR the amendment and restatement of the Employee Stock Purchase Plan (see pages 42-44);
- n AGAINST the establishment of a policy prohibiting the harvesting and trading of products from primary, old growth of other endangered forests (see pages 45-46);
- n AGAINST the amendment of our Bylaws to require that an independent director serve as the Chairman of our Board of Directors (see pages 47-48); and
- n AGAINST the establishment of a policy of expensing in the Company s annual income statement the costs of all future stock options issued by the Company (see pages 49-51).

Q: How many votes are needed to approve each item?

A: n **Directors**. The affirmative vote of a plurality of the votes cast by the shares entitled to vote at the Annual Meeting is required to elect each director.

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QUESTIONS AND ANSWERS

- **Amendments to Benefit Plans to Implement the Option Exchange and an Additional Unrelated Amendment to the LTIP.** The votes cast in favor of this proposal must exceed the votes cast in opposition for the proposal to be adopted, provided that the total number of votes cast on this matter represents greater than 50% of our outstanding shares.
- **Reapproval of the LTIP s Performance-Based Criteria.** The votes cast in favor of this proposal must exceed the votes cast in opposition for this proposal to be adopted.
- **Approval of the Amendment and Restatement of the Employee Stock Purchase Plan.** The votes cast in favor of this proposal must exceed the votes cast in opposition for this proposal to be adopted.
- **Shareholder Proposals.** The votes cast in favor of the shareholder proposal must exceed the votes cast in opposition for a proposal to be adopted.

Q: How will my proxy be voted?

A: Unless you give other instructions, the persons named as proxies on the enclosed proxy card will vote in accordance with the recommendation of the Board of Directors. Accordingly, if no specification is made, shares properly represented by proxies will be voted FOR the director nominees named on pages 5-6, FOR the amendments to our benefit plans to implement the Option Exchange and an additional unrelated amendment to the LTIP, FOR the reapproval of the LTIP s performance-based criteria, FOR the amendment and restatement of the Employee Stock Purchase Plan and AGAINST each of the shareholder proposals.

Q: How will abstentions and broker non-votes be treated?

A:

- **Directors**. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum.
- **Amendments to Benefit Plans to Implement the Option Exchange and an Additional Unrelated Amendment to the LTIP.** Except as described below, an abstention or broker non-vote will have the effect of a vote against this proposal since they are not counted as votes cast and therefore will not count towards the requirement that greater than 50% of our outstanding shares vote on this matter. However, if more than 50% of our outstanding shares vote on this proposal, abstentions and broker non-votes will have no effect on the result of the vote. In any event, abstentions and broker non-votes will count toward the presence of a quorum.
- **Reapproval of the LTIP s Performance-Based Criteria.** Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum.
- **Approval of the Amendment and Restatement of the Employee Stock Purchase Plan.** Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum.
- **Shareholder Proposals.** Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count toward the presence of a quorum.

Q: How will voting on any other business be conducted?

A: If any matter other than those currently scheduled to be voted on is properly raised and presented at the Annual Meeting, your vote gives authority to the persons named on

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QUESTIONS AND ANSWERS

the proxy card to vote on any such matter in their discretion. To the extent any other matter is voted on, generally the votes cast in favor of the matter must exceed those cast in opposition in order for the matter to be approved.

Q: How many votes is each share entitled to?
A: Each share of Georgia-Pacific common stock is entitled to one vote.

Q: How do I vote?
A: You may vote:

- by attending the Annual Meeting;
- via the Internet at www.eproxyvote.com/gp;
- by telephone at 1-877-779-8683 (1-877-PRX-VOTE) as directed on your proxy card; or
- by completing and mailing your proxy card.

Specific instructions for voting are described on the enclosed proxy card.

Q: Can I change my vote?
A: Yes. You may revoke your proxy by submitting a new proxy by one of the methods described in the previous question and answer, or by sending a written request to change your vote that must be received by our Secretary prior to the Annual Meeting. Giving your proxy does not deprive you of your right to vote in person should you attend the Annual Meeting.

Q: Who will tabulate the votes?
A: EquiServe Trust Company, N.A. (EquiServe) will tabulate the votes and act as inspector of election.

Q: How many votes does Georgia-Pacific need in order to hold the meeting?
A: As of the record date, March 12, 2003, 250,319,958 shares of common stock of Georgia-Pacific were outstanding. Accordingly, the total number of possible votes is 250,319,958. A number of votes equal to or greater than a majority of the possible votes, or 125,159,979 (including abstentions), will constitute a quorum. No business may be transacted at the Annual Meeting without a quorum. If you are present at the Annual Meeting in person or by proxy, or vote by proxy card, telephone or the Internet, you will be considered part of the quorum.

Q: Is my vote confidential?
A: Proxy cards, ballots and voting tabulations that identify individual shareholders are mailed or returned directly to EquiServe, and handled in a manner that protects your privacy. Your vote will not be disclosed except: (1) as needed to permit EquiServe to tabulate and certify the vote; (2) as required by law; (3) if we determine in good faith that a bona fide dispute exists as to the accuracy or authenticity of a proxy, ballot or vote; or (4) in the event of a proxy contest, unless all parties to the contest agree to follow Georgia-Pacific s confidentiality policy.

Q: What does it mean if I get more than one proxy card?
A: You may receive a proxy card for each account that you have, including shares held by the trustee in the Company s dividend reinvestment plan or any employee benefit plan. Please vote by proxy for all accounts to ensure that all of your shares are voted. The proxy card (or

cards) you receive represents all of the shares you are entitled to vote. If you wish to consolidate multiple accounts, please contact our transfer agent, EquiServe, at 1-800-519-3111.

Q: How will shares in Georgia-Pacific employee benefit plans be voted?

A: This proxy statement is being used to solicit voting instructions for the shares of the Company s common stock which are held by the Trustee of the Company s benefit plans for the benefit of plan participants. Shares held in our benefit plans that are entitled to vote will

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QUESTIONS AND ANSWERS

be voted by the Trustee pursuant to your instructions. Shares held in any employee benefit plan that are entitled to vote but do not vote will not be counted. You must instruct the Trustee to vote your shares by utilizing the voting methods described above; namely, by the Internet, by telephone or by completing and mailing your proxy card.

Q: When are shareholder proposals intended for inclusion in next year s Annual Meeting Proxy Statement due?
A: The deadline for receipt of shareholder proposals intended to be included in the proxy statement or otherwise for next year s annual meeting is the close of business on December 1, 2003. They must be submitted in writing to Kenneth F. Khoury, Vice President, Deputy General Counsel and Secretary, Georgia-Pacific Corporation, 133 Peachtree Street, N.E., Atlanta, Georgia 30303.

Q: What if I do not meet the deadline for including a proposal in the proxy statement for next year s annual meeting?
A: Proposals not included in the proxy statement for next year s annual meeting may still be presented directly at the meeting. However, management will be able to vote proxies in its discretion on any such proposal if Georgia-Pacific: (1) receives notice of the proposal before the close of business on February 12, 2004, and advises shareholders in the annual meeting proxy statement about the nature of the matter and how management intends to vote on such matter; or (2) does not receive notice of the proposal prior to the close of business on February 15, 2004. Notices of intention to present proposals at next year s annual meeting should be addressed to Kenneth F. Khoury, Vice President, Deputy General Counsel and Secretary, Georgia- Pacific Corporation, 133 Peachtree Street, NE, Atlanta, Georgia 30303.

Q: Who are the proxy solicitors and what are the solicitation expenses?
A: We have hired D.F. King & Co., Inc. to solicit proxies for $35,000, plus its costs, to assist in the distribution of proxy material and solicitation of votes by mail, telephone, facsimile or personal meetings. Our officers, directors and employees may also assist with solicitation efforts.

We will reimburse brokers and other custodians, nominees and fiduciaries for forwarding proxy and solicitation materials to owners of Georgia-Pacific stock in accordance with the fee schedule approved by the New York Stock Exchange.

Q: May I access this year s proxy statement and annual report via the Internet?
A: Yes. This proxy statement and our 2002 Annual Report on Form 10-K are available by accessing the Investor Information section under the About Us tab on our Internet site at www.gp.com. In addition, most shareholders can elect to receive future proxy statements, annual reports and proxy cards over the Internet instead of receiving paper copies in the mail. Links will be provided to elect this option if you vote on the Internet in accordance with the instructions on your proxy card.

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NOMINEES AND DIRECTORS

Proposal No. 1 Election of Directors

Our Bylaws divide the Board into 3 classes, with the directors in each class serving for a term of 3 years and until their successors are elected and qualified.

The persons named on the enclosed proxy card will vote each properly executed proxy for the election of the following nominees as directors unless authority to so vote is withheld. If any named nominee becomes unavailable for election, the Board may substitute another nominee or reduce the number of directors to be elected. In the event the Board names a substitute nominee, the proxy would be voted for the substitute nominee. The terms of the remaining directors of the Company will continue as indicated below. Proxies can be voted for no more than 5 persons.

The Board of Directors recommends that shareholders vote **FOR** the election of the 5 nominees named below.

CLASS I DIRECTOR NOMINEES, term ends May 2, 2006

JANE EVANS, 58, Chief Executive Officer of Opnix Internet Technologies (an Internet licensing company) since January 2003, has been one of our directors since 1994. From May 2001 to January 2003, Ms. Evans was the Chief Executive Officer of Opnix, Inc. (a provider of Internet traffic management and routing products). From August 1995 to May 2001, Ms. Evans served as President and Chief Executive Officer of GAMUT Interactive, Inc. (a provider of television and consumer operating systems). In May 2001, GAMUT filed for bankruptcy under Chapter 7 of the Bankruptcy Code. From April 1991 until March 1995, Ms. Evans was Vice President and General Manager of the Home and Personal Services Market Unit of US West Communications, Inc.

Ms. Evans is also a director of Hypercom Corporation, KB Home, Main Street and Main Incorporated, PETsMART, Inc. and Altria Group, Inc.

SIR RICHARD V. GIORDANO, 69, Chairman of BG Group plc (oil and gas exploration and production distributor and seller of gas and gas supported services) since January 1994, has been one of our directors since 1984 and our Lead Director since November 2002.

He is also a director of Rio Tinto plc.

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NOMINEES AND DIRECTORS

M. DOUGLAS IVESTER, 56, President of Deer Run Investments, LLC (an investment management company) since February 2000, has been one of our directors since 1993. Mr. Ivester served as Chief Executive Officer of The Coca-Cola Company from October 1997 to February 2000 and as President and Chief Operating Officer from July 1994 until October 1997.

Mr. Ivester is also a director of SunTrust Banks, Inc., S1 Corporation and Service Central, Inc.

LOUIS W. SULLIVAN, M.D., 69, President Emeritus of Morehouse School of Medicine since July 2002, has been one of our directors since 1993. Dr. Sullivan served as President of Morehouse School of Medicine from January 1993 until July 2002 and as Secretary of the United States Department of Health and Human Services from March 1989 until January 1993.

Dr. Sullivan is also a director of Bristol-Myers Squibb Company, CIGNA Corporation, Equifax Inc., United Therapeutics, Inc., Minnesota Mining and Manufacturing Company, BioSante Pharmaceuticals, Inc. and Endovascular Instruments, Inc.

LEE M. THOMAS, 58, our President since September 2002, has been one of our directors since May 2002. Prior to becoming our President, Mr. Thomas served in a number of management positions with Georgia-Pacific, including President-Building Products and Distribution from March 2002 until September 2002, Executive Vice President-Consumer Products from August 2000 until March 2002, Executive Vice President-Paper and Chemicals from December 1997 until August 2000, Executive Vice President-Paper from January 1997 until December 1997, Senior Vice President-Paper from February 1995 until December 1996, and Senior Vice President-Environmental, Government Affairs and Communications from February 1994 until January 1995 and Senior Vice President-Environmental and Government Affairs from March 1993 until January 1994.

Mr. Thomas is also a director of Airgas, Inc.

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NOMINEES AND DIRECTORS

CONTINUING DIRECTORS

JAMES S. BALLOUN, 64, Chairman, Chief Executive Officer and President of Acuity Brands, Inc. (a manufacturer of lighting equipment and chemicals) since November 2001, has been one of our directors since 1998. His current term as director ends in 2005. Mr. Balloun served as Chairman, Chief Executive Officer and President of National Service Industries, Inc. (formerly, a diversified manufacturer and distributor of lighting equipment, chemicals, textiles and envelopes) from 1996 until October 2001 when it spun off Acuity Brands in a tax-free distribution to its shareholders. Mr. Balloun served as a director of McKinsey & Company, Inc. from 1976 until 1996.

Mr. Balloun is also a director of Acuity Brands, Inc., Radiant Systems, Inc. and Wachovia Corporation.

BARBARA L. BOWLES, 55, Chairman, Chief Executive Officer and Chief Investment Officer of The Kenwood Group, Inc. (an investment advisory firm) since 1989, has been one of our directors since 2000. Her current term as director ends in 2004. Ms. Bowles served as a director of Fort James Corporation from 1997 until the completion of our acquisition of Fort James in 2000.

Ms. Bowles is also a director of The Black & Decker Corporation, Wisconsin Energy Corporation, Wisconsin Electric Power Company, Wisconsin Gas Company, Hyde Park Bank of Chicago and Dollar General Corporation.

WORLEY H. CLARK, JR., 70, President of W.H. Clark Associates, Ltd. (a consulting firm) since 1994, has been one of our directors since 2000. His current term as director ends in 2005. Mr. Clark retired from Ondeo Nalco Company (formerly, Nalco Chemical Company) in 1994, where he served as Chairman and Chief Executive Officer. Mr. Clark served as a director of Fort James Corporation from 1993 until the completion of our acquisition of Fort James in 2000.

Mr. Clark is also a director of Merrill Lynch & Co., Inc., Bethlehem Steel Corporation, Valero Energy Corp., Millennium Chemicals, Inc. and the Merchants Exchange and Exchange Cubed, LLC.

ALSTON D. CORRELL, 61, our Chairman and Chief Executive Officer since December 1993 and May 1993, respectively, and President from July 1991 to September 2002, has been one of our directors since 1992. His current term as director ends in 2005.

Mr. Correll is also a director of Norfolk Southern Corporation, Mirant Corporation and SunTrust Banks, Inc.

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NOMINEES AND DIRECTORS

DONALD V. FITES, 69, retired Chairman and Chief Executive Officer of Caterpillar Inc., a position he held from 1990 until February 1999, has been one of our directors since 1992. His current term as director ends in 2004.

Mr. Fites is also a director of AT&T Wireless Services, Inc., Exxon Mobil Corporation, AK Steel Corporation, Oshkosh Truck Corporation and Wolverine World Wide, Inc.

DAVID R. GOODE, 62, Chairman, President and Chief Executive Officer of Norfolk Southern Corporation since September 1992 and an executive officer of that company since 1985, has been one of our directors since 1992. His current term as director ends in 2004.

Mr. Goode is also a director of Norfolk Southern Corporation, Norfolk Southern Railway Company, Caterpillar Inc., Delta Air Lines, Inc. and Texas Instruments Incorporated.

JAMES B. WILLIAMS, 70, Chairman of the Executive Committee of SunTrust Banks, Inc. since March 1998, has been one of our directors since 1989. His current term as director ends in 2004. Mr. Williams held the positions of Chairman and Chief Executive Officer of SunTrust Banks, Inc. from April 1991 and April 1990, respectively, until March 1998.

Mr. Williams is also a director of SunTrust Banks, Inc., The Coca-Cola Company, Genuine Parts Company, Rollins, Inc., RPC Energy Services, Inc. and Marine Products Corporation.

JOHN D. ZEGLIS, 55, Chief Executive Officer and Chairman, AT&T Wireless Services since December 1999, has been one of our directors since 2001. His current term as director ends in 2005. Mr. Zeglis served as President of AT&T Corporation from December 1997 to July 2001, Vice Chairman from June 1997 to November 1997, General Counsel and Senior Executive Vice President from 1996 to 1997 and Senior Vice President and General Counsel from 1986 to 1996.

Mr. Zeglis is also a director of Helmerich and Payne Corporation.

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CORPORATE GOVERNANCE

Q: How is Georgia-Pacific managed?
A: We are managed by a core group of officers who are governed by a Board of Directors, the number of which is currently set at 13 members. Our Bylaws divide the Board into 3 classes of approximately equal size with each class being elected for three years.

Q: Has the Board of Directors adopted corporate governance principles?
A: Yes. For a number of years, our Board has had in place a set of Board Policies and Procedures, which address a number of corporate governance principles, including director independence, mandatory retirement, evaluation of the CEO, composition of the Board and succession planning. Our corporate governance principles are reviewed by the Executive and Governance Committee on a regular basis and any proposed additions or amendments to the principles are reviewed and approved by the Board.

The New York Stock Exchange (the NYSE) has proposed rules that would require listed companies like Georgia-Pacific to adopt governance guidelines covering certain matters. The Company has reviewed its corporate governance principles and, to the extent necessary, will amend them to ensure compliance when these rules are adopted in their final form.

In order to provide shareholders with greater knowledge regarding the Board s processes, the corporate governance principles adopted by the Board of Directors will be posted on our website at www.gp.com in the near future.

Q: Does the Board of Directors have a lead director?
A: Yes. In November 2002, the Executive and Governance Committee approved and recommended to the Board for approval a presiding director (the Lead Director). The Lead Director, who shall be the Chairman of the Executive and Governance Committee, presides over any executive session of the non-management directors. The Lead Director also serves as a liaison between the non-management members of the Board and the Chairman, and discusses with the Chairman, to the extent appropriate, matters discussed by the non-management directors in executive session.

As Chairman of the Executive and Governance Committee, Sir Richard V. Giordano serves as our Lead Director.

Q: Do non-management directors meet without management present?
A: Yes. Our non-management directors meet in executive session without management present. During 2002, our non-management directors met 5 times and discussed such topics as management s performance, succession planning and the recommendations of the Compensation Committee regarding the Chief Executive Officer s compensation.

Q: How many directors are independent?
A: Of the Board s 13 members, 11 are independent. A director s independence is determined by the Board pursuant to our corporate governance principles, which define an independent director as one who is not an officer or former officer of Georgia-Pacific, or a relative of such officer, is not an officer of a significant customer or supplier to Georgia-Pacific, does not have a personal services contract with Georgia-Pacific, is not a significant advisor or consultant to Georgia-Pacific and is not affiliated with a tax-exempt entity that receives significant contributions from Georgia-Pacific. The Board has determined, after careful review, that each member of the Board is independent as defined

CORPORATE GOVERNANCE

in our corporate governance principles, with the exception of Messrs. Correll and Thomas, who are employed by Georgia-Pacific.

Q: Does the Board of Directors evaluate its own performance and effectiveness?

A: Yes. The Board evaluates its performance and effectiveness through annual self-assessments. This process commences with each director completing a questionnaire with respect to the following topics:

- n Whether Board meetings foster open communication and timely resolution of issues presented.
- n The Board s expectations concerning director responsibilities and the productivity of Board and Committee meetings.
- n The appropriateness of the Company s long- term operating and financial strategies and its success in executing those plans.
- n Senior management s accessibility to provide the Board with important information about the Company.
- n The structure of the Board and its Committees, as well as the frequency of Board and Committee meetings.
- n The characteristics and expertise of the Board required to ensure its effectiveness.
- n The adequacy of existing accounting and financial controls, and the ethical conduct and legal compliance of the Company.
- n Compliance by the Board and senior management with the Board s corporate governance principles.
- n The succession plans for the Chief Executive Officer and senior management.
- n Whether the Company has met its obligations to its employees and to the communities in which it operates.

The collective ratings and comments of our directors are compiled and presented by the Chairman of the Executive and Governance Committee to the full Board for discussion, for the assessment of progress in the areas targeted for improvement a year earlier, and for the development of recommendations to enhance the Board s effectiveness over the next year.

Q: What are non-employee directors paid each year?

A: Each director s compensation consists of:

- n $40,000 in cash;
- n stock options to purchase shares of Georgia-Pacific stock worth $40,000 on the date of grant;
- n a restricted stock grant of Georgia-Pacific stock worth $40,000 on the date of grant; and
- n group term life insurance in the amount of $50,000.

Committee Chairmen also receive a $5,000 annual fee.

Directors have the option to defer all or part of the cash compensation payable to them so long as they defer at least $10,000 in each calendar year. A deferral gives a director the option of being paid as if such funds had been invested in:

- shares of Georgia-Pacific stock;
- a promissory note with a floating interest rate equal to ¾% over the six-month Treasury Bill rate; or
- an S&P 500 Index Fund.

The deferred fees (adjusted for investment gains or losses) are paid upon retirement in a single payment or in annual cash payments.

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CORPORATE GOVERNANCE

BOARD COMMITTEES

The Board has determined, after careful review, that all of the members of our Board Committees are independent, as defined by our corporate governance ottom" ALIGN="right">16,351,229 13,439,068

CASH FLOWS FROM INVESTING ACTIVITIES:

Additions to utility plant and nonutility property

(5,256,744) (4,575,843)

Proceeds from disposal of equipment

10,265

Net cash used in investing activities

(5,256,744) (4,565,578)

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds on collection of note

87,000 87,000

Proceeds from issuance of stock (33,284 and 26,737 shares, respectively)

1,001,335 771,761

Cash dividends paid

(2,309,539) (2,203,224)

Net cash used in financing activities

(1,221,204) (1,344,463)

NET INCREASE IN CASH AND CASH EQUIVALENTS	9,873,281	7,529,027
BEGINNING CASH AND CASH EQUIVALENTS	6,745,630	7,422,360
ENDING CASH AND CASH EQUIVALENTS	$16,618,911	$14,951,387

<u>SUPPLEMENTAL INFORMATION:</u>

Cash paid (refunded) during the period for:

Interest	$1,503,314	$1,509,863

Income taxes		
	(705,000)	919,000

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED

1. Basis of Presentation

RGC Resources, Inc. is an energy services company primarily engaged in the sale and distribution of natural gas. The consolidated financial statements include the accounts of RGC Resources, Inc. and its wholly owned subsidiaries (Resources or the Company); Roanoke Gas Company; Diversified Energy Company; and RGC Ventures of Virginia, Inc.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly RGC Resources, Inc. s financial position as of June 30, 2011 and the results of its operations for the three months and nine months ended June 30, 2011 and 2010 and its cash flows for the nine months ended June 30, 2011 and 2010. The results of operations for the three months and nine months ended June 30, 2011 are not indicative of the results to be expected for the fiscal year ending September 30, 2011 as quarterly earnings are affected by the highly seasonal nature of the business and weather conditions generally result in greater earnings during the winter months.

The condensed consolidated interim financial statements and condensed notes are presented as permitted by Rule 8-03 of Regulation S-X and the instructions to Form 10-Q and do not contain certain information included in the Company s annual consolidated financial statements and notes thereto. The condensed consolidated financial statements and condensed notes should be read in conjunction with the financial statements and notes contained in the Company s Form 10-K. The September 30, 2010 balance sheet was included in the Company s Form 10-K.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company s significant accounting policies are described in Note 1 to the consolidated financial statements in Form 10-K for the year ended September 30, 2010. Newly adopted and newly issued accounting standards are discussed below.

Recently Adopted Accounting Standards

In July 2010, the FASB issued guidance under FASB ASC No. 310 - *Receivables*, to provide greater transparency about an entity s allowance for credit losses and the credit quality of its financing receivables on a disaggregated basis. Financing receivables represent a contractual right to receive money either on demand or on fixed or determinable dates and are recognized as assets on the entity s balance sheet. The Company has two primary types of financing receivables: trade accounts receivable, resulting from the sale of natural gas and other services to its customers, and a note receivable. Trade accounts receivable are specifically excluded from the provisions of this guidance as they are short-term in nature. The Company s note receivable represents the balance on a five-year note with a fifteen year amortization for partial payment on the sale of the Bluefield, Virginia natural gas distribution assets to ANGD, LLC in October 2007. Interest on the note is accrued monthly and paid quarterly. The note is a performing asset with all principal and interest payments current. Management evaluates the status of the note each reporting period to make an assessment on the collectibility of the balance. In its most recent evaluation, management concluded that the note continued to be fully collectible and no loss reserve was required. The note would be considered past due if either the quarterly interest payment or the annual principal installment were outstanding for more than 30 days after their contractual due date. Additional information regarding this note is included under the fair value measurements section below.

Recently Issued Accounting Standards

In May 2011, the FASB issued guidance under FASB ASC No. 820 *Fair Value Measurement*, which serves to converge guidance between the FASB and the International Accounting Standards Board (IASB) for fair value measurements and their related disclosures. This guidance provides for common requirements for measuring fair value and for disclosing information about fair value measurements including the consistency of the meaning of the term fair value . This guidance provides clarification about the application of existing fair value measurement and disclosure requirements as well as changes in particular requirements for measuring fair value or for disclosing information about fair value measurements. The new requirements are effective for interim and annual periods beginning after December 15, 2011. Management is currently evaluating the impact of this guidance but does not anticipate these changes to have a material impact on its financial position, results of operations or cash flows. However, management does anticipate the adoption of this guidance will result in changes to disclosures surrounding fair value.

In June 2011, the FASB issued guidance under FASB ASC No. 220 *Comprehensive Income* that defines the presentation of Comprehensive Income in the financial statements. According to the guidance, an entity may present a single continuous statement of comprehensive income or two separate statements a statement of income and a statement of other comprehensive income that immediately follows the statement of income. In either presentation, the entity is required to present on the face of the financial statement the components of other comprehensive income including the reclassification adjustment for items that are reclassified from other comprehensive income to net income. The new requirements are effective on a retrospective basis for interim and annual periods beginning after December 15, 2011. Management is currently evaluating the specific requirements of this guidance but does not anticipate these changes to have a material impact on its financial position or cash flows. Management does expect changes related to its statement of income and comprehensive income to include additional details currently included in the footnotes.

Other accounting standards that have been issued by the FASB or other standard-setting bodies are not currently applicable to the Company or are not expected to have a material impact on the Company s financial position, results of operations and cash flows.

RGC RESOURCES, INC. AND SUBSIDIARIES

2. Stock Dividend

On July 25, 2011, the Board of Directors of RGC Resources, Inc. declared a two for one stock split effected in the form of a 100% share dividend upon the issued and outstanding common stock. The stock dividend is payable on September 1, 2011 to shareholders of record on August 15, 2011. As the stock dividend was declared subsequent to the end of the quarter, the Company s average share count and earnings per share for the period ended June 30, 2011 were not adjusted for the increase in the number of shares.

3. Rates and Regulatory Matters

The State Corporation Commission of Virginia (SCC) exercises regulatory authority over the natural gas operations of Roanoke Gas. Such regulation encompasses terms, conditions, and rates to be charged to customers for natural gas service; safety standards; extension of service; accounting and depreciation.

On November 1, 2010, Roanoke Gas Company placed into effect new base rates, subject to refund, that provided for approximately $1,400,000 in additional annual non-gas revenues. On March 11, 2011, the Company reached a stipulated agreement with the SCC staff for a non-gas rate award in the amount of $814,000 in additional annual non-gas revenues. On March 31, 2011, the Hearing Examiner issued a report accepting the stipulated agreement and recommended the Commission issue a final order approving the stipulated amount. On April 6, 2011, the SCC issued a final order accepting the Hearing Examiner s report. In June 2011, the Company completed its refund for the difference between the rates placed into effect on November 1 and the final rates approved by the SCC.

4. Short-Term Debt

On March 14, 2011, the Company and Wells Fargo Bank (formerly Wachovia Bank) renewed its line-of-credit agreement. The new agreement maintained the same variable interest rate of 30 day LIBOR plus 100 basis points and the availability fee equal to 15 basis points applied to the difference between the face amount of the note and the average outstanding balance during the period. The Company continued the multi-tiered borrowing limits to accommodate seasonal borrowing demands and to minimize borrowing costs. The Company s total available borrowing limits during the remaining term of the line-of-credit agreement ranges from $1,000,000 to $5,000,000.

The line-of-credit agreement will expire March 31, 2012, unless extended. The Company anticipates being able to extend or replace the credit line upon expiration. At June 30, 2011, the Company had no outstanding balance under its line-of-credit agreement.

5. Long-Term Debt

On October 20, 2010, the Company executed a modification of the $15,000,000 unsecured variable rate note dated November 28, 2005 with the current lender. This modification extended the due date for the principal balance to March 31, 2012 from the original maturity date of December 1, 2010. All other terms and conditions provided for in the original note remain in place after the modification. The Company anticipates being able to renew this note on comparable terms as currently in place until such time the note co-terminates with the corresponding interest rate swap.

6. Derivatives and Hedging

The Company s risk management policy allows management to enter into derivatives for the purpose of managing commodity and financial market risks of its business operations. The Company s risk management policy specifically prohibits the use of derivatives for speculative purposes. The key market risks that the Company seeks to hedge include the price of natural gas and the cost of borrowed funds.

The Company periodically enters into collars, swaps and caps for the purpose of hedging the price of natural gas in order to provide price stability during the winter months. The fair value of these instruments is recorded in the balance sheet with the offsetting entry to either under-recovery of gas costs or over-recovery of gas costs. Net income and other comprehensive income are not affected by the change in market value as any cost incurred or benefit received from these instruments is recoverable or refunded to customers through the purchased gas adjustment clause (PGA) included as part of the Company s billing rate. During the quarter ended June 30, 2011, the Company had no outstanding derivative collar arrangements for the purchase of natural gas.

The Company has two interest rate swaps associated with its variable rate notes. The first swap relates to the $15,000,000 note issued in November 2005. This swap essentially converts the floating rate note based upon LIBOR into fixed rate debt with a 5.74% effective interest rate. The second swap relates to the $5,000,000 variable rate note issued in October 2008. This swap converts the variable rate note based on LIBOR into a fixed rate debt with a 5.79% effective interest rate. Both swaps mature on December 1, 2015 and qualify as cash flow hedges with changes in fair value reported in other comprehensive income. No portions of interest rate swaps were deemed ineffective during the periods presented.

RGC RESOURCES, INC. AND SUBSIDIARIES

The table below reflects the fair values of the derivative instruments and their corresponding classification in the consolidated balance sheets under the current liabilities caption of Fair value of marked-to-market transactions as of June 30, 2011 and September 30, 2010:

	June 30, 2011	September 30, 2010
Derivatives designated as hedging instruments:		
Interest rate swaps	$ 2,829,966	$ 3,536,545
Natural gas collar arrangements		83,160
Total derivatives designated as hedging instruments	$ 2,829,966	$ 3,619,705

The table in Note 7 reflects the effect on income and other comprehensive income of the Company s cash flow hedges.

Based on the current interest rate environment, management estimates that approximately $910,000 of the fair value on the interest rate hedges will be reclassified from other comprehensive loss into interest expense on the income statement over the next 12 months. Changes in LIBOR rates during this period could significantly change the amount estimated to be reclassified to income as well as the fair value of the interest rate hedges.

7. Comprehensive Income

A summary of other comprehensive income and loss is provided below:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Interest Rate SWAPs				
Unrealized losses	$ (567,898)	$ (975,783)	$ (860)	$ (1,266,654)
Income tax	215,574	370,407	328	480,823
Net unrealized losses	(352,324)	(605,376)	(532)	(785,831)
Transfer of realized losses to interest expense	236,922	233,446	707,439	706,204
Income tax	(89,936)	(88,616)	(268,545)	(268,076)
Net transfer of realized losses to interest expense	146,986	144,830	438,894	438,128
Defined Benefit Plans				
Transfer of realized losses to income	37,401	25,619	112,203	76,857
Income tax	(14,198)	(9,725)	(42,594)	(29,175)
Net transfer of realized losses to income	23,203	15,894	69,609	47,682
Amortization of transition obligation	11,773	11,773	35,319	35,319
Income tax	(4,469)	(4,469)	(13,407)	(13,407)
Net amortization of transition obligation	7,304	7,304	21,912	21,912
Net other comprehensive income (loss)	$ (174,831)	$ (437,348)	$ 529,883	$ (278,109)
Accumulated comprehensive loss - beginning of period	(3,162,109)	(2,725,467)	(3,866,823)	(2,884,706)
Accumulated comprehensive loss - end of period	$ (3,336,940)	$ (3,162,815)	$ (3,336,940)	$ (3,162,815)

RGC RESOURCES, INC. AND SUBSIDIARIES

The components of accumulated comprehensive loss as of June 30, 2011 and September 30, 2010:

	June 30 2011	**September 30 2010**
Interest rate swaps	$ (1,755,711)	$ (2,194,073)
Pension plan	(1,063,498)	(1,113,787)
Postretirement benefit plan	(517,731)	(558,963)
Total accumulated comprehensive loss	$ (3,336,940)	$ (3,866,823)

8. Earnings Per Share

Basic earnings per common share for the three months and nine months ended June 30, 2011 and 2010 are calculated by dividing net income by the weighted average common shares outstanding during the period. Diluted earnings per common share for the three months and nine months ended June 30, 2011 are calculated by dividing net income by the weighted average common shares outstanding during the period plus dilutive potential common shares. A reconciliation of basic and diluted earnings per share is presented below:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Net Income	$ 184,617	$ 13,466	$ 4,673,795	$ 4,596,764
Weighted average common shares	2,302,214	2,263,119	2,291,436	2,252,447
Effect of dilutive securities:				
Options to purchase common stock	3,767	6,384	4,428	7,272
Diluted average common shares	2,305,981	2,269,503	2,295,864	2,259,719
Earnings Per Share of Common Stock:				
Basic	$ 0.08	$ 0.01	$ 2.04	$ 2.04
Diluted	$ 0.08	$ 0.01	$ 2.04	$ 2.03

9. Commitments and Contingencies

Roanoke Gas currently holds the only franchises and/or certificates of public convenience and necessity to distribute natural gas in its service area. These franchises are effective through January 1, 2016. Certificates of public convenience and necessity in Virginia are exclusive and are intended for perpetual duration.

RGC RESOURCES, INC. AND SUBSIDIARIES

Due to the nature of the natural gas distribution business, the Company has entered into agreements with both suppliers and pipelines for natural gas commodity purchases, storage capacity and pipeline delivery capacity. The Company obtains most of its regulated natural gas supply from an asset manager. The Company uses an asset manager to assist in optimizing the use of its transportation, storage rights, and gas supply in order to provide a secure and reliable source of natural gas to its customers. The Company also has storage and pipeline capacity contracts to store and deliver natural gas to the Company s distribution system. Roanoke Gas is served directly by two primary pipelines. These two pipelines deliver 100% of the natural gas supplied to the Company s customers. Depending on weather conditions and the level of customer demand, failure of one or both of these transmission pipelines could have a major adverse impact on the Company.

There have been no changes to the status of the lawsuits reported in the Annual Report on Form 10-K for the year ended September 30, 2010.

Except to the extent, if any, described above, the Company is not a party to any material pending legal proceedings.

10. Employee Benefit Plans

The Company has both a defined benefit pension plan (the pension plan) and a postretirement benefit plan (the postretirement plan). The pension plan covers substantially all of the Company s employees and provides retirement income based on years of service and employee compensation. The postretirement plan provides certain healthcare and supplemental life insurance benefits to retired employees who meet specific age and service requirements. Net pension plan and postretirement plan expense recorded by the Company is detailed as follows:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Components of net periodic pension cost:				
Service cost	$ 119,809	$ 112,215	$ 359,427	$ 336,645
Interest cost	227,219	213,411	681,657	640,233
Expected return on plan assets	(232,052)	(204,657)	(696,156)	(613,971)
Recognized loss	81,793	68,778	245,379	206,334
Net periodic pension cost	$ 196,769	$ 189,747	$ 590,307	$ 569,241

RGC RESOURCES, INC. AND SUBSIDIARIES

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Components of postretirement benefit cost:				
Service cost	$ 48,711	$ 39,946	$ 146,133	$ 119,838
Interest cost	144,994	128,359	434,982	385,077
Expected return on plan assets	(89,320)	(81,263)	(267,960)	(243,789)
Amortization of transition obligation	47,223	47,223	141,669	141,669
Recognized loss	50,288	17,134	150,864	51,402
Net postretirement benefit cost	$ 201,896	$ 151,399	$ 605,688	$ 454,197

The Company contributed $600,000 to its pension plan during the nine-month period ended June 30, 2011. The Company currently expects to make a total contribution of approximately $1,000,000 to its pension plan and $700,000 to its postretirement benefit plan during the fiscal year ending September 30, 2011. The Company will continue to evaluate its benefit plan funding levels throughout the year.

11. Environmental Matters

Both Roanoke Gas Company and a previously owned gas subsidiary operated manufactured gas plants (MGPs) as a source of fuel for lighting and heating until the early 1950s. A by-product of operating MGPs was coal tar, and the potential exists for on-site tar waste contaminants at the former plant sites. Should the Company eventually be required to remediate either site, it will pursue all prudent and reasonable means to recover any related costs, including insurance claims and regulatory approval for rate case recognition of expenses associated with any work required.

12. Fair Value Measurements

FASB ASC No. 820, *Fair Value Measurements and Disclosures*, established a fair value hierarchy that prioritizes each input to the valuation method used to measure fair value of financial and nonfinancial assets and liabilities that are measured and reported on a fair value basis into one of the following three broad levels:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 Inputs other than quoted prices in Level 1 that are either for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

RGC RESOURCES, INC. AND SUBSIDIARIES

Level 3 Unobservable inputs for the asset or liability where there is little, if any, market activity for the asset or liability at the measurement date.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The following table summarizes the Company s financial assets and liabilities that are measured at fair value on a recurring basis and the fair value measurements by level within the fair value hierarchy as of June 30, 2011 and September 30, 2010:

	Fair Value Measurements - June 30, 2011			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Natural gas purchases	$ 2,217,000	$	$ 2,217,000	$
Interest rate swaps	2,829,966		2,829,966	
Natural gas derivative				
Total	$ 5,046,966	$	$ 5,046,966	$

	Fair Value Measurements - September 30, 2010			
	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:				
Natural gas purchases	$ 980,334	$	$ 980,334	$
Interest rate swaps	3,536,545		3,536,545	
Natural gas derivative	83,160		83,160	
Total	$ 4,600,039	$	$ 4,600,039	$

Under the asset management contract, a timing difference can exist between the payment for natural gas purchases and the actual receipt of such purchases. Payments are made based on a predetermined monthly volume with the price based on weighted average first of the month index prices corresponding to the month of the scheduled payment. At June 30, 2011 and September 30, 2010, the Company had a liability in accounts payable reflecting the estimated fair value of the liability valued at the corresponding first of month index prices for which the liability is expected to be settled.

RGC RESOURCES, INC. AND SUBSIDIARIES

The fair value of the interest rate swaps, included in the line item Fair value of marked-to-market transactions , is determined by the financial institutions issuing those instruments. The valuation is a mathematical approximation of market value as of the balance sheet date using the counterparty s proprietary models and certain assumptions regarding past, present and future market conditions.

The fair value of the natural gas derivatives, included in the line item Fair Value of marked-to-market transactions , is determined by applying the NYMEX futures prices to the hedged volumes for each month covered by the derivative contracts. The Company had no outstanding natural gas derivatives at June 30, 2011.

The Company s nonfinancial assets and liabilities that are measured at fair value on a nonrecurring basis consist of its asset retirement obligations. The asset retirement obligations are measured at fair value at initial recognition based on expected future cash flows to settle the obligation.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable (with the exception of the timing difference under the asset management contract), customer credit balances and customer deposits is a reasonable estimate of fair value due to the short-term nature of these financial instruments. The following table summarizes the fair value of the Company s financial assets and liabilities that are not adjusted to fair value in the financial statements as of June 30, 2011 and September 30, 2010.

	June 30, 2011		September 30, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Note receivable	$ 1,039,000	$ 1,068,527	$ 1,126,000	$ 1,156,755
Liabilities:				
Long-term debt	$ 28,000,000	$ 29,159,459	$ 28,000,000	$ 29,452,040

Note receivable is composed of $87,000 in current assets and $952,000 in other assets. Long-term debt includes current maturities of long-term debt of $15,000,000.

The fair value of the note receivable is estimated by discounting future cash flows based on a range of rates for similar investments adjusted for management s expectation of credit and other risks. The fair value of long-term debt is estimated by discounting the future cash flows of the fixed rate debt at rates extrapolated based on current market conditions. The variable rate long-term debt has interest rate swaps that effectively convert such debt to a fixed rate. The values of the swap agreements are included in the first table above.

FASB ASC 825, *Financial Instruments*, requires disclosures regarding concentrations of credit risk from financial instruments. Cash equivalents are investments in high-grade, short-term securities (original maturity less than three months), placed with financially sound institutions. Accounts receivable are from a diverse group of customers including individuals and small and large companies in various industries. As of June 30, 2011 and September 30, 2010, no single customer accounted for more than 5% of the total accounts receivable balance. The Company maintains certain credit standards with its customers and requires a customer deposit if such evaluation warrants. The Company is also exposed to credit risk of nonperformance by the counterparty on its commodity-based collar agreements. The Company uses financially sound institutions to mitigate the risk of nonperformance on those contracts.

13. Subsequent Events

The Company has evaluated subsequent events through the date the financials statements were issued. There were no items not otherwise disclosed which would have materially impacted the Company s condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

ITEM 2 - MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This report contains forward-looking statements that relate to future transactions, events or expectations. In addition, RGC Resources, Inc. (Resources or the Company) may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. These statements are based on management s current expectations and information available at the time of such statements and are believed to be reasonable and are made in good faith. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors could cause the Company s actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company s forward-looking statements. The risks and uncertainties that may affect the operations, performance, development and results of the Company s business include, but are not limited to, the following: (i) general economic conditions both locally and nationally; (ii) impact of potential climate change legislation regarding limitations on carbon dioxide emissions; (iii) impact of potential increased regulatory oversight and compliance requirements due to financial, environmental, safety and system integrity laws and regulations; (iv) failure to obtain timely rate relief from regulatory authorities for increasing operating or gas costs; (v) the potential loss of large-volume industrial customers to alternate fuels, facility closings or production changes; (vi) ability to attract and retain professional and technical employees to replace an aging work force; (vii) rising interest rates; (viii) effect of weather conditions and natural disasters on production and distribution facilities and the related effect on supply availability and price; (ix) changes in accounting regulations and practices, which could change the accounting treatment for certain transactions and increase the cost of compliance; (x) access to capital markets and the availability of debt and equity financing to support future capital expenditures; (xi) volatility in actuarially determined benefit costs and plan asset performance; (xii) increased customer delinquencies and conservation efforts resulting from difficult economic conditions and/or colder weather; (xiii) volatility in the price and availability of natural gas including restrictions on the exploration and development of natural gas reserves; and (xiv) effect of the federal budget deficit and its impact on corporate taxes. All of these factors are difficult to predict and many are beyond the Company s control. Accordingly, while the Company believes its forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. When used in the Company s documents or news releases, the words, anticipate, believe, intend, plan, estimate, expect, objective, pr forecast, budget, assume, indicate or similar words or future or conditional verbs such as will, would, should, can, could or may identify forward-looking statements.

Forward-looking statements reflect the Company s current expectations only as of the date they are made. The Company assumes no duty to update these statements should expectations change or actual results differ from current expectations except as required by applicable laws and regulations.

RGC RESOURCES, INC. AND SUBSIDIARIES

The three-month and nine-month earnings presented herein should not be considered as reflective of the Company s consolidated financial results for the fiscal year ending September 30, 2011. The total revenues and margins realized during the first nine months reflect higher billings due to the weather sensitive nature of the gas business. Improvement or decline in earnings for the balance of the fiscal year will depend primarily on non-weather sensitive industrial consumption and the level of operating and maintenance costs during the remainder of the year.

Overview

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 58,000 residential, commercial and industrial customers in Roanoke, Virginia and the surrounding localities through its Roanoke Gas Company (Roanoke Gas) subsidiary. Natural gas service is provided at rates and for terms and conditions set by the Virginia State Corporation Commission (SCC).

Resources also provides certain unregulated services through Roanoke Gas. Such unregulated operations represent less than 3% of total revenues and margin of Resources on an annual basis.

The Company s utility operations are regulated by the SCC which oversees the terms, conditions, and rates to be charged to customers for natural gas service, safety standards, extension of service, accounting and depreciation. The Company is also subject to federal regulation from the Department of Transportation in regard to the construction, operation, maintenance, safety and pipeline integrity of its transmission and distribution pipeline. The Federal Energy Regulatory Commission regulates the prices for the transportation and delivery of natural gas to the Company s distribution system and underground storage services. The Company is also subject to other regulations which are not necessarily industry specific.

The SCC authorizes the rates and fees that the Company charges its customers for regulated natural gas service. Over the past several years, the Company has implemented certain approved rate mechanisms that reduce some of the volatility in earnings associated with variations in winter weather and the cost of natural gas.

Since 2003, Roanoke Gas Company has had in place a weather normalization adjustment mechanism (WNA) based on a weather measurement band around the most recent 30-year temperature average. Because the SCC authorizes billing rates for the utility operations of Roanoke Gas based on normal weather, warmer than normal weather may result in the Company failing to earn its authorized rate of return. Therefore, the WNA provides the Company with a level of earnings protection when weather is significantly warmer than normal and provides its customers with price protection when the weather is significantly colder than normal. The WNA mechanism provides for a weather band of 3% above and below the 30-year average, whereby the Company would bill its customers for the lost margin (excluding gas costs) for the impact of weather that was more than 3% warmer than normal or refund customers the excess margin earned for weather that was more than 3% colder than normal. The annual WNA period extends from April to March. The total number of heating degree days during both the current and the prior WNA periods fell within the weather band. As a result, the WNA mechanism was not triggered for either period.

RGC RESOURCES, INC. AND SUBSIDIARIES

The Company also has an approved rate structure in place that mitigates the impact of financing costs of its natural gas inventory. Over the past three years, the commodity price of natural gas has fluctuated significantly from a price of more than $13 a decatherm in July 2008 to under $4 a decatherm in 2010. Currently the price is under $5 a decatherm. Under this rate structure, Roanoke Gas recognizes revenue for the financing costs, or carrying costs , of its investment in natural gas inventory. The carrying cost revenue factor applied to inventory is based on the Company s weighted average cost of capital including interest rates on short-term and long-term debt and the Company s authorized return on equity. During times of rising gas costs and rising inventory levels, the Company recognizes revenues to offset higher financing costs associated with higher inventory balances. Conversely, during times of decreasing gas costs and lower inventory balances, the Company recognizes less carrying cost revenue as financing costs are lower. As a result of the lower commodity price of natural gas, the average price of gas in storage has declined from last year s levels. The lower average price in storage, combined with lower inventory balances, has resulted in a $7,000 reduction in carrying cost revenues for the third quarter of fiscal 2011 and a $139,000 reduction for the nine-month period. Carrying cost revenues are expected to be near or slightly less than last year s levels for the balance of the Company s fiscal year.

Generally, as investment in natural gas inventory increases so does the level of borrowing under the Company s line-of-credit. However, as the carrying cost factor used in determining carrying cost revenues is based on the Company s weighted average cost of capital, carrying cost revenues do not directly correspond with incremental short-term financing costs. Therefore, when inventory balances decline due to a reduction in commodity prices, net income will decline as carrying cost revenues decrease by a greater amount than short-term financing costs decrease. The inverse occurs when inventory costs increase. Due to its strong cash position related to lower gas costs and other factors, the Company has not accessed its line-of-credit facility since early 2009.

RGC Resources is committed to the safe and reliable delivery of natural gas to its customers. Since 1991, the Company has placed an increased emphasis on the renewal and replacement of its cast iron and bare steel natural gas distribution pipelines. Management anticipates replacing all remaining cast iron and bare steel pipe within the next 10 years.

Results of Operations

Three Months Ended June 30, 2011:

Net income increased by approximately $171,000 for the quarter ended June 30, 2011 compared to the same period last year. Higher natural gas deliveries due to a colder April combined with the implementation of a non-gas rate increase in November were the key contributors to the improvement in quarterly results.

RGC RESOURCES, INC. AND SUBSIDIARIES

The table below reflects operating revenues, volume activity and heating degree-days.

	Three Months Ended June 30, 2011	2010	Increase/ (Decrease)	Percentage
Operating Revenues				
Gas Utility	$ 10,759,012	$ 10,050,355	$ 708,657	7%
Other	348,473	283,946	64,527	23%
Total Operating Revenues	$ 11,107,485	$ 10,334,301	$ 773,184	7%
Delivered Volumes				
Regulated Natural Gas (DTH)				
Residential and Commercial	731,152	688,971	42,181	6%
Transportation and Interruptible	704,263	616,652	87,611	14%
Total Delivered Volumes	1,435,415	1,305,623	129,792	10%
Heating Degree Days (Unofficial)	258	219	39	18%

Total operating revenues for the three months ended June 30, 2011, compared to the same period last year, increased due to a combination of an increase in natural gas deliveries and implementation of a non-gas rate increase partially offset by lower natural gas prices. The per unit cost of natural gas reflected in the cost of sales decreased by 4% compared to last year. The 10% increase in total delivered volumes resulted from a colder April, which increased residential and commercial heating volumes, and increased industrial consumption.

	Three Months Ended June 30, 2011	2010	Increase/ (Decrease)	Percentage
Gross Margin				
Gas Utility	$ 4,916,771	$ 4,579,094	$ 337,677	7%
Other	148,216	132,215	16,001	12%
Total Gross Margin	$ 5,064,987	$ 4,711,309	$ 353,678	8%

Regulated natural gas margins from utility operations increased from the same period last year primarily as a result of higher total natural gas deliveries for the quarter and the implementation of a non-gas base rate increase effective for service rendered on and after November 1, 2010. Residential and commercial volumes increased by 6% from last year s levels as the total number of heating degree days for the period increased by 18%. Industrial volumes, which tend to be less weather sensitive than residential and commercial volumes, reflected an increase of 14% primarily due to greater production activity by some industrial customers. As a result of the rate increase and the completion of several master meter conversion projects during the prior year, the Company realized approximately $200,000 in additional margin from customer base charges, which is a flat monthly fee billed to each natural gas customer. During 2010, the Company converted six apartment complexes from a single master meter for each building to individual meters located at each apartment.

The components of the gas utility margin increase are summarized below:

Net Margin Increase

Customer Base Charge	$ 198,887
Carrying Cost	(7,352)
Volumetric	159,842
Other	(13,700)
Total	$ 337,677

Other margins increased by $16,001 from last year primarily due to a higher level of contract services in unregulated operations. More than half of the revenues and margins included under the caption of Other are subject to variations in the level of activity. Furthermore, the contracts to provide these services are generally one year in length and are subject to rebidding by the customer on an annual basis. The loss of any one of these contracts would significantly impact other revenues and margins.

Operation and maintenance expenses increased by $35,033, or 1%, over the same period last year. Total employee labor and benefit costs increased by approximately $139,000 over the same period last year primarily due to increased pension and postretirement medical costs related to the amortization of a higher actuarial loss and higher health insurance premiums. Operation and maintenance expenses were reduced by $100,000 due to an increase in the capitalization of benefit costs and general and administrative overheads related to a greater level of expenditures in the Company s pipeline renewal projects.

General taxes increased slightly due to higher payroll taxes.

Depreciation expense increased by $38,817, or 4%, on a corresponding increase in utility plant investment primarily due to the completion of several master meter conversion and distribution pipeline projects.

Other income, net, increased by $3,302 primarily due to a greater level of interest income on short-term cash investments.

Interest expense remained virtually unchanged as the Company s total debt position has remained at the $28,000,000 level. The Company has been able to generate sufficient funds from its operations to meet its current cash needs without accessing its line-of-credit.

RGC RESOURCES, INC. AND SUBSIDIARIES

Income tax expense increased by $107,820, which corresponds to the increase in pre-tax income for the quarter. The effective tax rate was 38% for the current period.

Nine Months Ended June 30, 2011:

The table below reflects operating revenues, volume activity and heating degree days.

	Nine Months Ended June 30, 2011	2010	Increase/ (Decrease)	Percentage
Operating Revenues				
Gas Utilities	$ 59,780,573	$ 64,102,256	$ (4,321,683)	-7%
Other	947,240	1,025,276	(78,036)	-8%
Total Operating Revenues	$ 60,727,813	$ 65,127,532	$ (4,399,719)	-7%
Delivered Volumes				
Regulated Natural Gas (DTH)				
Residential and Commercial	6,124,761	6,159,382	(34,621)	-1%
Transportation and Interruptible	2,279,243	2,066,791	212,452	10%
Total Delivered Volume	8,404,004	8,226,173	177,831	2%
Heating Degree Days (Unofficial)	4,058	4,027	31	1%

Total operating revenues for the nine months ended June 30, 2011 compared to the same period last year decreased due to reductions in the cost of natural gas more than offsetting an increase in the non-gas base rates. The average cost of gas delivered declined by 13% from last year. Total natural gas deliveries increased 2% on nearly the same number of heating degree days. Residential and commercial volumes declined by 1% while transportation volumes increased by 10% due to improvement in production activities. Other revenues decreased by 8% related primarily to a reduced level of contract services.

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	Nine Months Ended June 30, 2011	2010	Increase/ (Decrease)	Percentage
Gross Margin				
Gas Utilities	$ 22,062,667	$ 21,363,641	$ 699,026	3%
Other	433,250	509,760	(76,510)	-15%
Total Gross Margin	$ 22,495,917	$ 21,873,401	$ 622,516	3%

Regulated natural gas margins increased primarily due to the implementation of a non-gas base rate increase which more than offset a reduction in carrying cost revenues. The increased billing rates accounted for approximately $650,000 in higher margins with $240,000 attributable to customer base charges and the balance related to volumetric sales. Customer base charges also increased over last year due to the addition of more than 1,000 meters subject to this monthly charge due to the master meter conversions discussed above. Although total delivered volumes increased by 2%, the reduction in the higher margin residential and commercial sales mostly offset the growth in transportation and industrial volumes. Carrying cost revenues decreased by approximately $139,000 due to a lower average investment in natural gas storage during the period. The components of the regulated margin increase are summarized below:

Net Margin Increase

Customer Base Charge	$ 430,490
Carrying Cost	(138,708)
Volumetric	434,147
Other	(26,903)
Total	$ 699,026

Other margins decreased by $76,510 due to a reduction in the level of contracted services in the unregulated operations earlier in the fiscal year.

Operation and maintenance expenses increased by $375,884, or 4%, for the nine-month period ended June 30, 2011 compared to the same period last year. The increase in expenses is primarily attributable to $321,000 in higher labor and employee benefit costs, primarily due to increased pension and postretirement medical costs related to the amortization of a higher actuarial loss and higher health insurance premiums, as well as an increase in contractor services.

General taxes remained nearly unchanged with a decrease of $7,511, or 1%, for the nine-month period ended June 30, 2011 compared to the same period last year.

Depreciation expense increased by $124,799, or 4%, corresponding to the increase in utility plant investment.

Other income, net, decreased by $2,402 due to the reduction in the note receivable balance.

Interest expense remained nearly unchanged due to the absence of borrowing under the Company s line-of-credit.

Income tax expense increased by $51,448, or 2%, which corresponds to the increase in pre-tax income. The effective tax rate was 38% for both periods.

Critical Accounting Policies and Estimates

The consolidated financial statements of Resources are prepared in accordance with accounting principles generally accepted in the United States of America. The amounts of assets, liabilities, revenues and expenses reported in the Company s financial statements are affected by accounting policies, estimates and assumptions that are necessary to comply with generally accepted accounting principles. Estimates used in the financial statements are derived from prior experience, statistical analysis and professional judgments. Actual results may differ significantly from these estimates and assumptions.

The Company considers an estimate to be critical if it is material to the financial statements and it requires assumptions to be made that were uncertain at the time the estimate was made and changes in the estimate are reasonably likely to occur from period to period. The Company considers the following accounting policies and estimates to be critical.

Regulatory accounting The Company s regulated operations follow the accounting and reporting requirements of FASB ASC No. 980, *Regulated Operations*. The economic effects of regulation can result in a regulated company deferring costs that have been or are expected to be recovered from customers in a period different from the period in which the costs would be charged to expense by an unregulated enterprise. When this occurs, costs are deferred as assets in the consolidated balance sheet (regulatory assets) and recorded as expenses when such amounts are reflected in rates. Additionally, regulators can impose liabilities upon a regulated company for amounts previously collected from customers and for current collection in rates of costs that are expected to be incurred in the future (regulatory liabilities).

If, for any reason, the Company ceases to meet the criteria for application of regulatory accounting treatment for all or part of its operations, the Company would remove the regulatory assets or liabilities from the balance sheet related to those elements no longer meeting the criteria and include them in the consolidated statement of income and comprehensive income for the period in which the discontinuance occurred.

Revenue recognition Regulated utility sales and transportation revenues are based on rates approved by the SCC. The non-gas cost component of rates may not be changed without a formal rate application and corresponding authorization by the SCC; however, the gas cost component of rates may be adjusted periodically through the PGA mechanism with administrative approval from the SCC. When the Company files a request for a non-gas rate increase, the SCC may allow the Company to place such rates into effect subject to refund pending a final order. Under these circumstances, the Company will estimate the amount of rate increase it anticipates will be approved based on the best available information at the time.

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The Company bills its regulated natural gas customers on a monthly cycle. The billing cycle periods for most customers do not coincide with the accounting periods used for financial reporting. The Company accrues estimated revenue for natural gas delivered to customers but not yet billed during the accounting period based on weather during the period and current and historical data. The financial statements included unbilled revenue of $892,792 and $916,278 as of June 30, 2011 and 2010, respectively.

Allowance for Doubtful Accounts The Company evaluates the collectibility of its accounts receivable balances based upon a variety of factors including loss history, level of delinquent account balances, collections on previously written off accounts and the general economic climate.

Pension and Postretirement Benefits The Company offers a defined benefit pension plan (pension plan) and a postretirement medical and life insurance plan (postretirement plan) to eligible employees. The expenses and liabilities associated with these plans are based on numerous assumptions and factors, including provisions of the plans, employee demographics, contributions made to the plans, return on each plan s assets and various actuarial calculations, assumptions and accounting requirements. In regard to the pension plan, specific factors include assumptions regarding the discount rate used in determining future benefit obligations, expected long-term rate of return on plan assets, compensation increases and life expectancies. Similarly, the postretirement medical plan also requires the estimation of many of the same factors as the pension plan in addition to assumptions regarding the rate of medical inflation and Medicare availability. Actual results may differ materially from the results expected from the actuarial assumptions due to changing economic conditions, volatility in interest rates and changes in life expectancy. Such differences may result in a material impact on the amount of expense recorded in future periods or the value of the obligations on the balance sheet.

Improvement in investment performance of the plans assets in 2010 and thus far in 2011 has partially mitigated the effect the declining discount rate has had in valuing the pension plan and postretirement plan liabilities. However, the lower discount rate (5.25% on the pension plan and 5.00% on the post-retirement medical plan) combined with an increase in the medical trend rate has resulted in an increase in the negative funded position of both plans and an increase in the retirement plan expense during the current year. Consequently, the funded status of both the pension plan and postretirement plan has resulted in continuing higher expected contribution levels for the next several years. The Company currently expects to fund the pension plan for the current fiscal year at $1,000,000 and the postretirement medical plan at $700,000, including the $600,000 contributions made thus far during the current fiscal year. The Company will continue to evaluate its benefit plan funding levels throughout the year in light of the requirements of the Pension Protection Act of 2006 and ongoing investment returns and make adjustments as necessary to avoid benefit restrictions and manage the cost of the benefit plans.

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Derivatives The Company may hedge certain risks incurred in its operations through the use of derivative instruments. The Company applies the requirements of FASB ASC No. 815, *Derivatives and Hedging*, which requires the recognition of derivative instruments as assets or liabilities in the Company s balance sheet at fair value. In most instances, fair value is based upon quoted futures prices for natural gas commodities and interest rate futures for interest rate swaps. Changes in the commodity and futures markets will impact the estimates of fair value in subsequent periods. Furthermore, the actual market value at the point of realization of the derivative may be significantly different from the values used in determining fair value in prior financial statements.

Asset Management

Roanoke Gas uses a third party as an asset manager to manage its pipeline transportation and storage rights and gas supply inventories and deliveries. In return for being able to utilize the excess capacities of the transportation and storage rights, the third party pays Roanoke Gas a monthly utilization fee, which is used to reduce the cost of gas for customers. The current agreement expires in October 2013.

Regulatory

In June 2011, Roanoke Gas Company completed the refund of excess non-gas revenues collected for gas service rendered between November 1, 2010, when rates were placed into effect, and April 6, 2011, when the final rates were approved by the SCC. On July 8, 2011, the Company filed notice with the SCC of its intent to file an expedited rate case based on the test period ended June 30, 2011. The amount of increase in non-gas rates to be requested has not yet been determined.

Capital Resources and Liquidity

Due to the capital intensive nature of the utility business, as well as the related weather sensitivity, the Company s primary capital needs are the funding of its continuing construction program, the seasonal funding of its natural gas inventories, accounts receivable and payment of dividends. To meet these needs, the Company relies on its operating cash flows, line-of-credit agreement, long-term debt and capital raised through the Company s Dividend Reinvestment and Stock Purchase Plan (DRIP).

Cash and cash equivalents increased by $9,873,281 for the nine-month period ended June 30, 2011 compared to a $7,529,027 increase for the same period last year. The following table summarizes the categories of uses of cash:

	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Cash Flow Summary Nine Months Ended:		
Provided by operating activities	$ 16,351,229	$ 13,439,068
Used in investing activities	(5,256,744)	(4,565,578)
Used in financing activities	(1,221,204)	(1,344,463)
Increase in cash and cash equivalents	$ 9,873,281	$ 7,529,027

The seasonal nature of the natural gas business causes operating cash flows to fluctuate significantly during the year as well as from year to year. Factors including weather, energy prices, natural gas storage levels and customer collections all contribute to working capital levels and the related cash flows. Generally, operating cash flows are positive during the second and third quarters as a combination of earnings, declining storage gas levels and collections on customer accounts all contribute to higher cash levels. During the first and fourth quarters, operating cash flows generally decrease due to increases in natural gas storage levels, rising customer receivable balances and construction activity.

For the nine months ended June 30, 2011, cash provided by operations increased by approximately $2,912,000 primarily due to a decrease in over-recovery of gas costs in the prior year and an increase in deferred tax liabilities. During the prior year, the Company had a net reduction in over-collection of gas cost of approximately $1,500,000 while the current year activity has had minimal change for the nine month period ended June 30, 2011. The increase in deferred income tax liability is attributable to the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, which was signed into law in December 2010. This Act extended the 50% bonus depreciation that expired December 31, 2009 and provided for 100% bonus depreciation for qualified investments from September 2010 through December 2011. As a result, the Company s current federal income tax liability will be significantly reduced in the current year due to the 100% bonus tax depreciation claimed on qualifying capital expenditures during the current fiscal year and will be deferred until future periods.

Investing activities are generally composed of expenditures under the Company s construction program, which involves a combination of replacing aging bare steel and cast iron pipe with new plastic or coated steel pipe and expansion of its natural gas system to meet the demands of customer growth. Cash flows used in investing activities increased by approximately $691,000 due to an increased level of capital expenditures. Total capital expenditures were $5,256,744 and $4,575,843 for the nine-month periods ended June 30, 2011 and 2010, respectively. The increase in capital expenditures is attributable to a major pipeline renewal project currently underway that will upgrade the natural gas distribution system in downtown Roanoke. Roanoke Gas total capital budget for the current fiscal year exceeds $7,500,000, a $1,500,000 increase over the amounts expended in either fiscal 2010 or 2009. The higher projected level of capital expenditures is associated with a focus on completing the replacement of the Company s remaining cast iron and bare steel pipe over the next 10 years. To meet this goal, the Company expects capital expenditures to remain near these levels over the next several years. Depreciation is expected to provide between 55% and 60% of the current year s projected capital expenditures, with the balance of funding dependent on other sources including net income and corporate borrowing activity, if necessary.

Financing activities generally consist of long-term and short-term borrowings and repayments, issuance of stock and the payment of dividends. As discussed above, the Company uses its line-of-credit arrangement to fund seasonal working capital needs as well as provide temporary financing for capital projects. Cash flow used in financing activities declined by approximately $123,000, from $1,344,000 to $1,221,000 due to approximately 6,500 more shares of common stock issued this year compared to the same period last year. The impact of lower natural gas prices and their effect on reducing inventory and accounts receivable levels have generated sufficient levels of cash to avoid accessing the line-of-credit during the current and prior year. With natural gas commodity prices projected to remain stable over the next 12 months, the Company anticipates its need for working capital funding through its line-of-credit agreement to be minimal through next winter.

On March 14, 2011, the Company renewed its line-of-credit agreement for Roanoke Gas Company. The new agreement maintained the same terms and rates as provided for under the expired agreement. The interest rate is based on 30-day LIBOR plus 100 basis points and includes an availability fee of 15 basis points applied to the difference between the face amount of the note and the average outstanding balance during the period. The Company maintained the multi-tiered borrowing limits to accommodate seasonal borrowing demands and minimize overall borrowing costs. Under the new agreement, total available limits during its term were reduced from the prior agreement due to the expected reduced funding requirements. The new agreement provides for available limits ranging from $1,000,000 to $5,000,000. The line-of-credit agreement will expire March 31, 2012, unless extended. The Company anticipates being able to extend or replace the line-of-credit upon expiration; however, there is no guarantee that the line-of-credit will be extended or replaced under the same or equivalent terms currently in place.

On October 20, 2010, the Company executed a modification to its $15,000,000 unsecured variable rate note with the current lender under the same terms and covenants providing for the extension of the maturity date until March 31, 2012 to coincide with the expiration of the Company s line-of-credit agreement. Due to the economic climate and its effect on the credit markets and credit spreads, the Company was unable to extend the note at this time beyond the current 16-month extension without incurring a higher interest rate than is currently in place. The Company anticipates being able to extend this note prior to its maturity on a yearly basis under comparable terms to those currently in place until such time the corresponding swap on the note matures on December 1, 2015.

At June 30, 2011, the Company s consolidated long-term capitalization, including current maturities of long-term debt, was 64% equity and 36% debt.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4 CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to be effective in providing reasonable assurance that information required to be disclosed in reports under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission (the SEC), and that such information is accumulated and communicated to management to allow for timely decisions regarding required disclosure.

As of June 30, 2011, the Company completed an evaluation, under the supervision and with the participation of management, including the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures. Based upon that evaluation, the chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2011.

There were no changes in the internal controls over financial reporting during the fiscal quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

RGC RESOURCES, INC. AND SUBSIDIARIES

Part II Other Information

ITEM 1 LEGAL PROCEEDINGS

No changes to the item reported in the Annual Report on Form 10-K for the year ended September 30, 2010.

ITEM 1A RISK FACTORS

Not required.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Pursuant to the RGC Resources Restricted Stock Plan for Outside Directors (the Restricted Stock Plan), 40% of the monthly retainer fee of each non-employee director of the Company is paid in shares of unregistered common stock and is subject to transferability restrictions (restricted stock). A participant can, subject to approval of Directors of the Company (the Board), elect to receive up to 100% of his or her retainer fee in restricted stock. The number of shares of restricted stock is calculated each month based on the closing sales price of the Company s common stock on the NASDAQ Global Market on the first day of the month. The shares of restricted stock are issued in reliance on Section 3(a)(11) and Section 4(2) exemptions under the Securities Act of 1933 and are only transferable in the case of the participant s death, disability, retirement or in the event of a change in control of the Company. Shares of restricted stock will be forfeited to the Company upon (i) the participant s voluntary resignation during his or her term on the Board or (ii) removal for cause. During the quarter ended June 30, 2011, the Company issued a total of 720 shares of restricted stock pursuant to the Restricted Stock Plan as follows:

Investment Date	Price	Number of Shares
4/1/2011	$ 34.450	237
5/2/2011	$ 33.520	243
6/1/2011	$ 34.000	240

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 RESERVED

ITEM 5 OTHER INFORMATION

None.

RGC RESOURCES, INC. AND SUBSIDIARIES

ITEM 6 EXHIBITS

Number	Description
10.1	Change in Control Agreement between RGC Resources, Inc. and Mr. John B. Williamson, III, effective April 1, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K filed on April 4, 2011).
10.2	Change in Control Agreement between RGC Resources, Inc. and Mr. John S. D Orazio, effective April 1, 2011 (incorporated by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K filed on April 4, 2011).
31.1	Rule 13a 14(a)/15d 14(a) Certification of Principal Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer.
32.1	Section 1350 Certification of Principal Executive Officer.
32.2	Section 1350 Certification of Principal Financial Officer.
101*	The following materials from the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Condensed Consolidated Balance Sheets at June 30, 2011 and September 30, 2010, (ii) Condensed Consolidated Statements of Income and Comprehensive Income for the three months and nine months ended June 30, 2011 and 2010; (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2011 and 2010, and (iv) Condensed Notes to Condensed Consolidated Financial Statements.

* Pursuant to Rule 406T or Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

RGC RESOURCES, INC. AND SUBSIDIARIES

SIGNATURES

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

	RGC Resources, Inc.
Date: August 15, 2011	By: /s/ Howard T. Lyon Howard T. Lyon Vice-President, Treasurer and CFO