STAR QUALITY.

annual report 2010

RGC Resources


Photo courtesy of Henry Dralle III

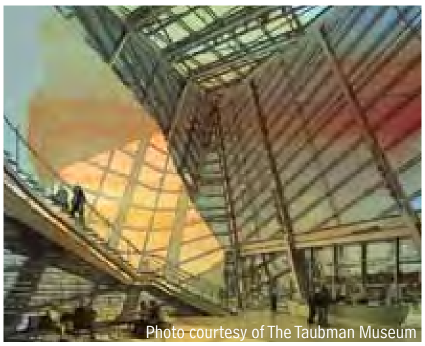


Photo courtesy of The Taubman Museum


Photo courtesy of The Roanoke Convention & Visitors Bureau

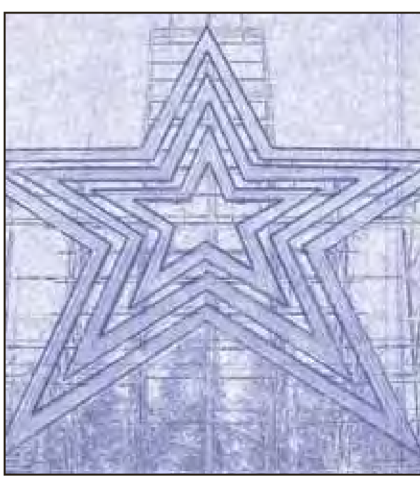
STAR QUALITY — it's what makes RGC Resources shine strong, like the city it calls home. Business is good in Roanoke and at RGC for the same essential philosophy: Strong and steady wins the race. City leaders and RGC remain committed to core values in business, community and environmental awareness — values that will ensure our light shines ever brighter.

In business, RGC Resources was named one of the country's 40 best energy companies, as ranked by *Public Utilities Fortnightly*. For Roanoke, the opening of The Virginia Tech Carilion Medical School was the year's star achievement. Mayor David Bowers proclaimed it was "a part of the biggest economic development initiative in the history of Roanoke since the railroad came to town over 100 years ago." Roanoke Gas is providing the school's natural gas.

Roanoke's business environment is complemented by the area's natural beauty, with the Blue Ridge Mountains showcasing four distinct seasons. Residents and visitors enjoy fishing, golfing, camping, hiking along the Appalachian Trail and biking. In fact, the League of American Bicyclists recognized Roanoke this year as a bicycle-friendly community. The Roanoke Valley treasures its railroad heritage, as well. The Virginia Museum of Transportation boasts the nation's largest collection of diesel and steam locomotives. From there, it's a short hop over to the renowned Historic Farmers' Market.

Downtown businesses continue to "go green," joining forces with RGC in its commitment to the Clean and Green Business Coalition, which announced in June that it had surpassed its goals. In two years, members reduced carbon emissions by 80,000 tons, an impressive 20 percent.

City leaders knew what they were doing when they erected that spectacular star atop Mill Mountain. RGC Resources is proud to be a part of Roanoke's brilliant past and shining future.



ROANOKE MILL STAR, *Circa 1949*

HEIGHT: *88.5 feet on a 100-foot structure*

WEIGHT OF STAR ALONE: *10,000 pounds*

CONSTRUCTION: *Roy C. Kinsey of Kinsey Sign Company and his sons built the star with 2,000 feet of neon tubing attached to a steel structure. Some original red tubing remains; the white and blue sections have been replaced.*

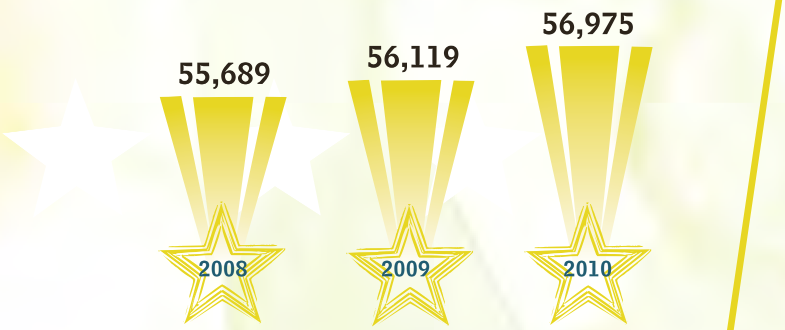
FACT: *The world's largest freestanding illuminated man-made star, towering 1,045 feet above Roanoke and originally built to attract Christmas shoppers, requires 17,500 watts to light the neon tubes, which burn every night until midnight.*

FICTION: *El Paso's Franklin Mountain Star in Texas trumps Roanoke's glory: Not true! The El Paso star spans 459 feet, but it lies flat on a slope and is not freestanding like Roanoke's.*

Cover and page 1 photos courtesy of Kurt Konrad

CORPORATE PROFILE

YEARS ENDED SEPTEMBER 30,	2010	2009	2008
Operating Revenue – Natural Gas	$ 72,426,658	$ 80,786,228	$ 93,606,593
Other Revenue	$ 1,397,256	$ 1,398,245	$ 1,030,233
Net Income – Continuing Operations	$ 4,445,436	$ 4,869,010	$ 4,257,824
Net Loss – Discontinued Operations	$ —	$ —	$ (36,690)
Basic Earnings Per Share – Continuing Operations	$ 1.97	$ 2.19	$ 1.94
Basic Earnings Per Share – Discontinued Operations	$ —	$ —	$ (0.02)
Regular Dividend Per Share – Cash	$ 1.32	$ 1.28	$ 1.25
Number of Customers – Natural Gas	56,975	56,119	55,689
Total Natural Gas Deliveries – DTH	9,314,151	9,260,469	9,251,254
Total Additions to Plant	$ 5,973,586	$ 5,752,780	$ 6,539,369



NUMBER OF NATURAL GAS CUSTOMERS

EARNINGS PER SHARE
(in dollars)

THE ROANOKE VALLEY

The Blue Ridge Mountains provide a spectacular backdrop for the Roanoke Valley and all it has to offer with its rich greens of summer, amber shades of fall, drifting snows of winter and pastel palettes of spring. The valley's star quality shines with its many festivals, rich railroad heritage and unique shopping featuring handmade Virginia crafts. Outdoor enthusiasts are drawn to the nearby Appalachian Trail, which winds its way through the breathtaking George Washington and Jefferson national forests.

LETTER FROM THE CEO

To Our Shareholders,

I am pleased to report company earnings of $4,445,000 or $1.97 per average common share of stock outstanding. While net income is 9 percent less than last year's record high level on continuing operations, I consider it a solid performance, given the continued weak economy and the fact that 2010 earnings represent our second highest net earnings on continuing operations. I am also pleased to report that our Board of Directors approved a 3 percent dividend rate increase effective February 1, 2011, for shareholders of record on January 14, 2011, elevating the annual dividend rate to $1.36 per share.

Over the next few years, we anticipate all of the remaining cast iron and bare steel will be replaced, resulting in maintenance cost reductions, reduced leaks and enhanced system reliability and safety.

The moderately lower net earnings in 2010 primarily resulted from lower gross margin, attributable to a decline in carrying cost revenue on significantly lower-priced natural gas. In addition, we experienced an increase in depreciation expense and property taxes. The increase in depreciation and taxes is directly related to increased investment in natural gas facilities, including our ongoing program to replace all remaining cast iron and bare steel pipelines with either plastic pipe or coated and corrosion protected steel pipe.

JOHN B. WILLIAMSON, III
RGC Resources, Inc.
Chairman of the Board, President & CEO

Prior to the 1960s, Roanoke Gas Company installed either cast iron or bare steel pipelines to deliver natural gas to its customers. Twenty years ago we began a program to replace the cast iron and bare steel pipe and have reduced its proportion of total distribution system miles of pipeline from 25 percent in 1990 to 6 percent in 2010. Over the next few years, we anticipate all of the remaining cast iron and bare steel will be replaced, resulting in maintenance cost reductions, reduced leaks and enhanced system reliability and safety.

Another important capital expenditure for us in 2010 was our master meter conversion project. We converted approximately 1,000 residential apartments from landlord supplied gas through a large master metered system to individually metered units. This resulted in increased customer charge revenue and improved system safety by giving the Gas Company control over service lines. It also removed any incentive on the part of the landlord to convert to electric heating systems while shifting the cost of that conversion to the tenants.

I am very pleased with the outlook for long-term domestic natural gas supplies. Continuing development of natural gas reserves in the Marcellus, Fayetteville, Haynesville, Barnett and other shale resource areas is resulting in lower

THE VIRGINIA TECH CARILION MEDICAL SCHOOL recently opened its doors in Roanoke, a huge and sparkling accomplishment for the Star City. Mayor David Bowers says the city "played a big part in identifying a deserted, dusty backside of the south downtown area, reclaiming it and redeveloping it into Riverside Center, an area that has now seen over $100 million of investment." Roanoke Gas is providing natural gas to the school, which is located next to the Carilion Roanoke Memorial Hospital in a thriving biomedical health sciences campus.

The Virginia Tech Carilion School of Medicine and Research Institute is a rising star in the realm of regional prosperity. It's considered a key to boosting the valley's economic growth in biomedicine, biotechnology and healthcare as it provides leadership in medical education and research, along with anticipated recruitment of researchers and scientists to the area in years to come. In growth, biomedical and biotechnical jobs are outpacing all of the region's other sectors and even outshine the national growth rate.

Photo courtesy of Kurt Konrad

CLEAN AND GREEN

Roanoke's private sector is showing its star quality by doing the right thing. Efforts by RGC and other Clean and Green Business Coalition members to reduce their "carbon footprint" are paying off. Carbon emissions fell 20 percent in two years, and the businesses saved a total of about $10 million in energy costs.

and more stable gas prices and what appears to be additional decades of available supply. Environmental concerns continue to be raised about the potential impact to surface and ground water in these supply development areas and the U.S. Environmental Protection Agency (EPA) has a multiyear study under way to determine what additional regulatory controls may be needed to protect water resources. While future regulations may add to the cost of developing additional shale-based supplies,the resource abundance and lower cost compared to deep-water exploration and production is projected to keep natural gas prices well below recent historic high prices. The abundance of supply also should help mitigate upward price pressure as generators of electricity begin to convert power

While future regulations may add to the cost of developing additional shale based supplies, the resource abundance and lower cost compared to deep water exploration and production is projected to keep natural gas prices well below recent historical high prices.

plants to use natural gas, instead of coal, to reduce their carbon dioxide emissions in compliance with new EPA Clean Air Act regulations.

Our competitive position for space and water heating has improved as gas prices have declined and electric prices have steadily increased in our market area. Our new management theme, *"Half the Cost – Half the Carbon,"* conveys that natural gas is both the economical and environmentally friendly home and commercial fuel. While new customer growth likely will be weak as the economy continues a very slow recovery, we believe we are well-positioned to capture the growth that develops.

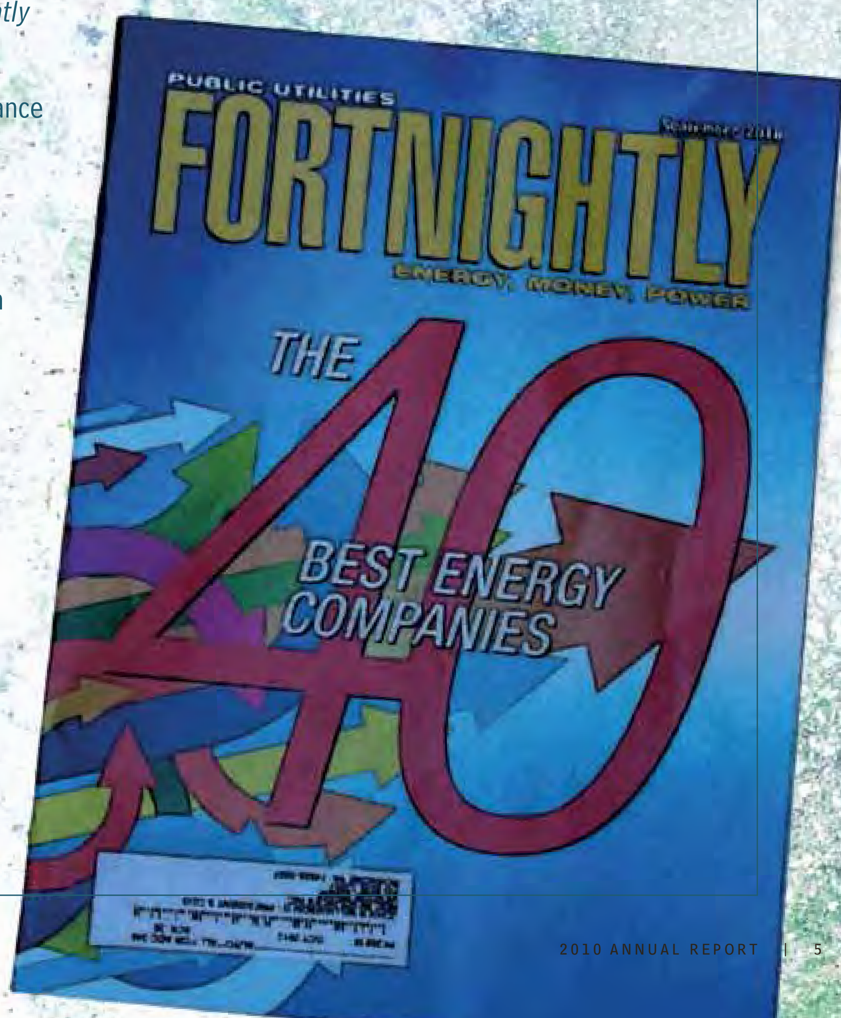
Our new management theme, "Half the Cost – Half the Carbon," conveys that natural gas is both the economical and environmentally friendly home and commercial fuel.

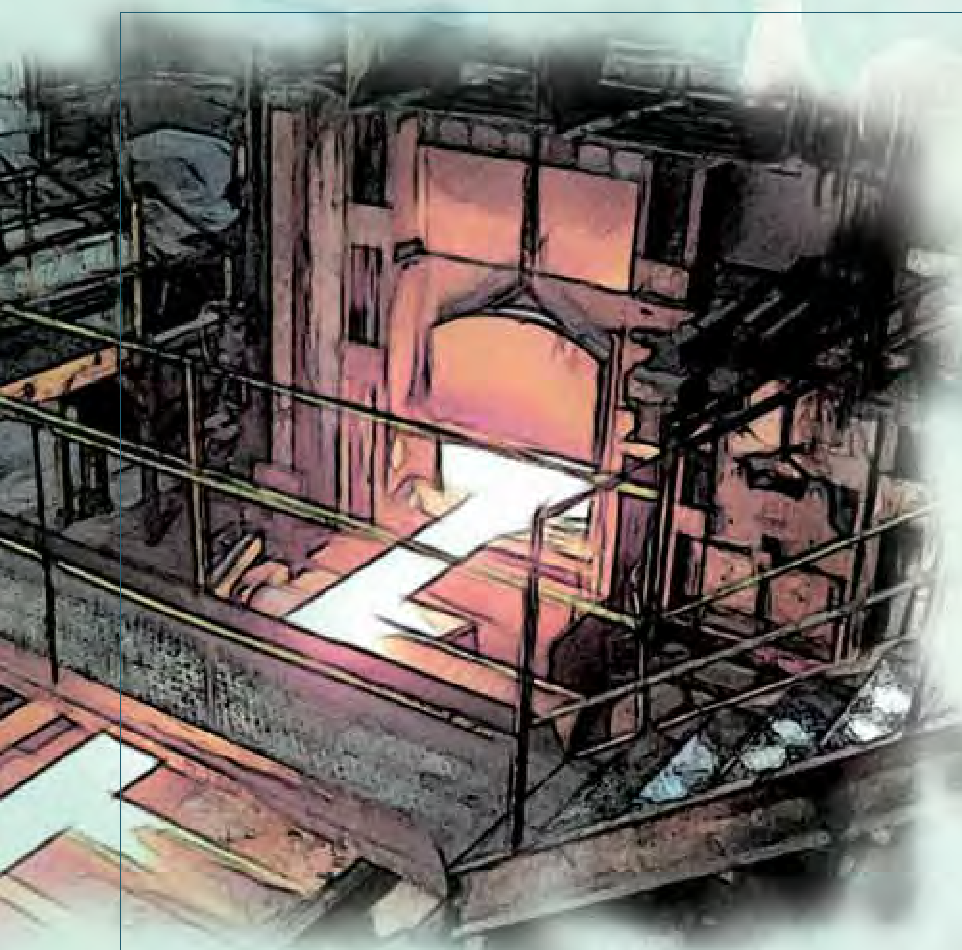
A BIG ACHIEVEMENT — TOP 40 POWER & GAS UTILITIES

RGC Resources is proud to be listed among the 40 best energy companies in 2010 by *Public Utilities Fortnightly* magazine. "Growth-oriented companies apparently are delivering stronger overall shareholder performance than their peers, as measured by *Fortnightly's* comprehensive benchmark," the article concluded.

"The Fortnightly 40 model combines several common measures of financial performance – profitability, dividend yield, cash flow, return on equity (ROE) and return on assets (ROA) together with a sustainable growth-rate calculation, to produce an overall picture of a company's value and long-term prospects," the article states. "To avoid the pitfalls of short-term fluctuations, the model evaluates four years of results for each company."

RGC appreciates the recognition as a bright and steady light in the universe of energy companies.





STEEL DYNAMICS

Roanoke Gas is a star player in the region's industrial community, providing natural gas for facilities such as Steel Dynamics Roanoke Bar Division's state-of-the-art mini-mill. Illustrated at left is Steel Dynamics' gas-fired reheat furnace, which uses natural gas to reheat steel billets made from recycled scrap to 2,000 degrees farenheit. The billets are then processed into a variety of products, including angles, channels, flat bars and reinforcing steel for commercial and infrastructure construction for both domestic and international customers. Steel Dynamics Roanoke Bar Division, formerly named Roanoke Electric Steel, was founded in 1955. Ever since, it has been a sure and steady industrial gas customer of Roanoke Gas.

Roanoke Gas Company filed a $1.4 million non-gas rate increase request with the Virginia State Corporation Commission in September 2010 and placed the rates into effect November 1, subject to refund for any amount not ultimately approved by the Commission. The new rates increase historic gross billings by slightly over 2 percent, however, with currently lower natural gas commodity prices being passed through to customers, we expect total customer bills this winter will be lower, assuming similar gas usage.

The mountaintop star has shone over the Roanoke Valley and our market area for over 60 years, and Roanoke is known as the Star City of the South.

The cover of our annual report this year is a close-up image of the star on Mill Mountain. The mountaintop star has shone over the Roanoke Valley and our market area for over 60 years, and Roanoke is known as the Star City of the South. The star is an appropriate symbol for a community and a region in ascendancy, as reflected in a revitalized downtown, a new medical school, developing recreational and high-technology business sectors, and a thriving medical, legal and retail hub in western Virginia. We believe we deliver star-quality service, utilizing a star-quality workforce, management team and board of directors.

Despite the continued slow economy and uncertainty related to future federal and regulatory energy policy, it is an exciting and interesting time to be in the natural gas distribution business. Supplying the low cost and environmentally superior energy source for a stable customer base will help us to provide continuing star-quality performance for our shareholders.

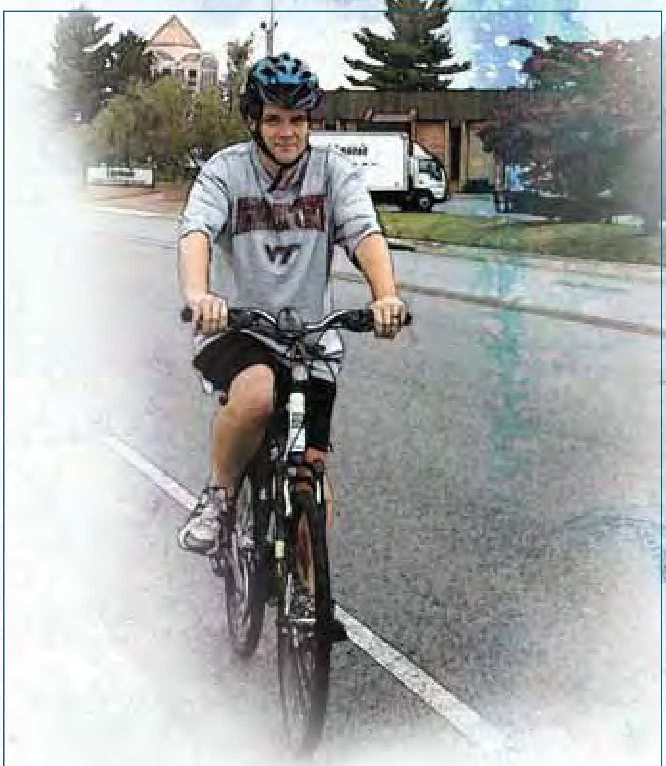
On behalf of the employees and directors of RGC Resources, thank you for your continuing decision to be an owner.

Sincerely,

John B. Williamson, III

RGC Resources, Inc.

Chairman of the Board, President & CEO



A BICYCLE FRIENDLY COMMUNITY

Roanoke is fast pedaling its way into the forefront of fitness, achieving star status along the way. The city this year was awarded the prestigious Bicycle Friendly Community award by the League of American Bicyclists.

Bicycling is catching on big as bike shops report increased sales and the city turns its attention to the value of bike paths and expanded greenways.

"Roanoke is a great place for biking, with its combination of smooth greenways, challenging hills and trails, and low-traffic, bike-friendly neighborhood streets," Mayor David Bowers says. David Harrison, chair of the city's Bicycle Advisory Committee adds: "This is an enormous honor for Roanoke. It will help the region's economic development efforts. Increasingly, employers and workers look for recreational opportunities in deciding where to locate. Bicycling is also a family activity that encourages an active, healthy lifestyle."

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Raymond D. Smoot, Jr.

Maryellen F. Goodlatte

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J. Allen Layman

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Information Technology,
Assistant Secretary and
Assistant Treasurer
RGC Resources, Inc.
Director: (3)(4)

(1) RGC Resources, Inc.
(2) Roanoke Gas Company
(3) Diversified Energy Company
(4) RGC Ventures of Virginia, Inc.

SELECTED FINANCIAL DATA

YEARS ENDED SEPTEMBER 30,	2010	2009	2008	2007	2006
Operating Revenues	$ 73,823,914	$ 82,184,473	$ 94,636,826	$ 89,901,301	$ 94,590,872
Gross Margin	26,440,273	27,075,924	25,913,612	25,221,776	23,208,272
Operating Income	8,982,181	9,844,516	8,838,026	7,958,279	6,677,500
Net Income – Continuing Operations	4,445,436	4,869,010	4,257,824	3,765,669	2,961,802
Net Income (Loss) – Discontinued Operations	–	–	(36,690)	40,540	549,729
Basic Earnings Per Share – Continuing Operations	$ 1.97	$ 2.19	$ 1.94	$ 1.74	$ 1.40
Basic Earnings Per Share – Discontinued Operations	–	–	(0.02)	0.02	0.26
Cash Dividends Declared Per Share	$ 1.32	$ 1.28	$ 1.25	$ 1.22	$ 1.20
Book Value Per Share	20.36	20.01	19.79	19.38	18.94
Average Shares Outstanding	2,257,131	2,223,727	2,201,263	2,162,803	2,120,267
Total Assets	$120,683,316	$118,801,892	$118,127,714	$116,332,455	$114,662,572
Long-Term Debt (Less Current Portion)	28,000,000	28,000,000	23,000,000	23,000,000	28,000,000
Stockholders' Equity	46,309,747	44,799,871	43,723,058	42,365,233	40,494,868
Shares Outstanding at Sept. 30	2,274,432	2,238,987	2,209,471	2,186,143	2,138,595

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) failure to earn on a consistent basis an adequate return on invested capital; (ii) ability to retain and attract professional and technical employees; (iii) the potential loss of large-volume industrial customers to alternate fuels, facility closings or production changes; (iv) volatility in the price and availability of natural gas; (v) uncertainty in the demand for natural gas in the Company's service area; (vi) general economic conditions both locally and nationally; (vii) increases in interest rates; (viii) increased customer delinquencies and conservation efforts resulting from high fuel costs, difficult economic conditions and/or colder weather; (ix) variations in winter heating degree-days from the 30-year average on which the Company's billing rates are set; (x) impact of potential climate change legislation regarding limitations on carbon dioxide emissions; (xi) impact of potential increased regulatory oversight and compliance requirements due to financial, environmental, safety and system integrity laws and regulations; (xii) failure to obtain timely rate relief from regulatory authorities for increasing operating or gas costs; (xiii) access to capital markets and the availability of debt and equity financing to support capital expenditures; (xiv) impact of potential increases in corporate income tax rates and other taxes; (xv) volatility in actuarially determined benefit costs and plan asset performance; (xvi) effect of weather conditions and natural disasters on production and distribution facilities and the related effect on supply availability and price; (xvii) potential effect of health-care legislation on health-care costs; and (xviii) changes in accounting regulations and practices, which could change the accounting treatment for certain transactions. 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," "projection," "forecast," "budget," "assume," "indicate" or similar words or future or conditional verbs such as "will," "would," "should," "can," "could" or "may" are intended to 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.

MANAGEMENT'S DISCUSSION & ANALYSIS

OVERVIEW

Resources is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 57,000 residential, commercial and industrial customers in Roanoke, Virginia and the surrounding areas through its Roanoke Gas Company ("Roanoke Gas") subsidiary. The utility operations of Roanoke Gas are regulated by the Virginia State Corporation Commission ("SCC" or "Virginia Commission"). Natural gas service is provided at rates and for the terms and conditions approved by the SCC.

Resources also provides certain unregulated natural gas related services through Roanoke Gas and information system services through RGC Ventures of Virginia, Inc., which operates as Application Resources. The unregulated operations represent less than 3% of revenues and margins of Resources.

Economic conditions, winter weather conditions and natural gas prices all have a direct influence on the quantity of natural gas deliveries, and management believes each factor has the potential to significantly impact earnings.

The economic environment generally has a direct correlation on business and industrial production and natural gas utilization. The economic downturn that began prior to last year has continued through 2010. However, the impact on industrial production in the Company's service area appears to have stabilized as transportation and industrial gas deliveries increased by 5% in fiscal 2010 compared to a 12% decline during the prior year. Although industrial activity has shown some improvement, significant growth in the economy has yet to materialize and customer growth has been stagnant as new construction has been very limited.

Natural gas prices continued their downward trend that began after the sharp run-up in prices in July 2008. Since the peak of more than $13.00 per decatherm, the price of natural gas has declined to below $4.00 per decatherm at the end of September 30, 2010. Natural gas prices are the lowest the Company has experienced in recent years, which have contributed significantly to the Company's continuing low bad debt expense and make natural gas an attractive low cost fuel source. Currently, futures prices for natural gas on the NYMEX (New York Mercantile Exchange) do not exceed $5.00 per decatherm over the next 12 months, implying relative stability in prices for 2011.

A majority of natural gas sales are for space heating during the winter season. Consequently, during warmer winters or unevenly cold winters, customers may significantly reduce their consumption of natural gas. The effect of warmer than normal winters is mitigated by a weather normalization adjustment ("WNA") factor as discussed below.

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. The Company has been able to mitigate a significant portion of the risk associated with warmer than normal winter weather by the inclusion of a WNA factor as part of its rate structure. This factor allows the Company to recover revenues equivalent to the margin that would be realized at approximately

3% warmer than the most recent 30-year temperature average for the Company's service area or refund revenues for any margin realized for weather greater than approximately 3% colder than the 30-year average. The measurement period for determining the weather band extends from April through March with any adjustment made to customer bills in late spring. For the WNA periods ending March 31, 2010 and 2009, the Company did not record a WNA adjustment as the number of heating degree-days fell within the weather band during the measurement period.

The Company also has an approved rate structure in place that mitigates the impact of financing costs of its natural gas inventory. 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 inventory costs and lower inventory balances, the Company recognizes less carrying cost revenue as financing costs are lower. The Company recognized approximately $1,547,000 and $2,328,000 in carrying cost revenues for the years ended September 30, 2010 and 2009, respectively. Carrying cost revenues for fiscal 2010 declined by 34% due to the much lower average price of natural gas in storage during the year ended September 30, 2010 compared to September 30, 2009 ($5.75 per decatherm compared to $8.31 per decatherm) and an average of 7% fewer decatherms in storage during those periods. The decline in net income in 2010 from the prior year was primarily the result of a reduction in carrying cost revenues. Carrying cost revenues for fiscal 2011 are expected to be lower than fiscal 2010 as the average price of gas in storage is projected to decrease as a result of lower natural gas prices.

In the short run, as investment in natural gas inventories increases so does the level of borrowing under the Company's line-of-credit. However, as the factor used in determining the carrying cost revenues is based on the Company's weighted average cost of capital, carrying cost revenues do not directly correspond with the short-term incremental 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. The inverse occurs when inventory costs increase. Due to a strong cash position, the Company did not access its line-of-credit during the fiscal year ended September 30, 2010.

RESULTS OF OPERATIONS

Fiscal Year 2010 Compared with Fiscal Year 2009

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

OPERATING REVENUES Year Ended September 30,	2010	2009	(Decrease)	Percentage
Gas Utilities	$ 72,426,658	$ 80,786,228	$ (8,359,570)	-10%
Other	1,397,256	1,398,245	(989)	0%
	$ 73,823,914	$ 82,184,473	$ (8,360,559)	-10%

DELIVERED VOLUMES Year Ended September 30,	2010	2009	Increase/(Decrease)	Percentage
Regulated Natural Gas (DTH)				
Residential and Commercial	6,623,331	6,697,738	(74,407)	-1%
Transportation and Interruptible	2,690,820	2,562,731	128,089	5%
Total Delivered Volumes	9,314,151	9,260,469	53,682	1%
Heating Degree Days (Unofficial)	4,047	3,914	133	3%

Total gas utility operating revenues for the year ended September 30, 2010 ("fiscal 2010") decreased by 10% from the year ended September 30, 2009 ("fiscal 2009") even though total delivered volumes increased by 1% over fiscal 2009. The decrease in gas revenues is due to the continued reduction in gas costs that began two years ago when natural gas prices peaked at more than $13 a decatherm. Natural gas commodity prices have fallen below $4 a decatherm as of the end of September 2010. For the year, the average per unit cost of natural gas reflected in cost of sales decreased by 13%. Total natural gas volumes were nearly unchanged from the prior year as residential and commercial volumes reflected a 1% decline from fiscal 2009 even though total heating degree days increased by 3%. Approximately half of the decline resulted from a large commercial customer switching to transportation service. Transportation and interruptible sales increased by 5% as economic and production activities appear to have stabilized following last year's 12% decline combined with the aforementioned commercial customer switching to transportation service.

Other revenues were nearly unchanged.

Gross Margin –

The table below reflects gross margins.

GROSS MARGIN Year Ended September 30,	2010	2009	Increase/(Decrease)	Percentage
Gas Utility	$ 25,736,411	$ 26,377,450	$ (641,039)	-2%
Other	703,862	698,474	5,388	1%
Total Gross Margin	$ 26,440,273	$ 27,075,924	$ (635,651)	-2%

Gas utility margins decreased by 2% primarily due to declining carrying cost revenues attributable to lower gas costs as discussed above. Volumetric margin declined slightly due to a reduction in the higher margin residential and commercial sales volumes. These declines were partially offset by an increase in customer base charges, the flat monthly fee billed to each natural gas customer, the result of a combination of master meter conversions and increased demand fees related to two customers moving to industrial firm transportation service during the year. The Company converted six apartment complexes from a single master meter for each building to individual meters located at each apartment. This increase in the number of meters generated additional monthly base charge fees. As a result of the move of two customers to industrial firm transportation service, a shift in revenue occurred with volumetric revenues decreasing due to the lower transportation rate while the customer base charge, or demand fee, increased.

Other margins, consisting of non-utility related services, remained nearly unchanged as the margin increased by $5,388. Some of these non-utility services are subject to annual contract renewals. The loss of one or more of these contracts could have a significant impact on other revenues and margins. The Company anticipates being able to extend or renew the major contracts for 2011; however, any continuation beyond 2011 is uncertain.

The changes in the components of the gas utility margin are summarized below:

NET UTILITY MARGIN DECREASE	
Customer Base Charge	$ 290,763
Volumetric	(148,264)
Carrying Cost	(780,964)
Other	(2,574)
Total	$ (641,039)

Other Operating Expenses – Operations expenses increased $368,943, or 3%, in fiscal 2010 compared with fiscal 2009 as a result of increases in employee benefit costs, partially offset by reductions in bad debt expense and a greater level of capitalized expenses. Employee benefit expenses increased due to a $190,000 increase in medical insurance premiums and a $300,000 increase in pension costs attributable to the amortization of a larger actuarial loss in fiscal 2010. The Company expects medical insurance and pension costs to increase again in fiscal 2011. Bad debt expense declined by $63,000 as total utility revenues decreased by 10%. Even though the economic downturn that began in late 2008 continued to have an impact in the Company's service territory, lower natural gas prices and a continued focus on customer delinquencies contributed to the decline in bad debt expense. The Company capitalized an additional $40,000 in overheads primarily due to higher employee benefit costs. The remaining difference in other operating expenses resulted from a variety of other minor expense variances.

Maintenance expenses decreased by $346,242, or 20%, due to the timing of pipeline leak repairs on the Company's distribution system and transmission pipeline right-of-way clearing in addition to fewer facility maintenance projects performed during fiscal 2010.

General taxes increased $46,384, or 4%, in fiscal 2010 compared to fiscal 2009 due to higher property taxes on a greater level of taxable property.

Depreciation expense increased by $157,599, or 4%, due to a higher natural gas plant investment, primarily the result of completing several master meter conversion and distribution pipeline renewal projects.

Other Expense – Other expense decreased by $59,638 due to a reduction in the level of charitable giving. Fiscal 2009 included one-time commitments to specific charitable projects.

Interest Expense – Total interest expense for fiscal 2010 decreased by $82,815, or 4%, from fiscal 2009, as the Company did not access its line-of-credit facility during 2010.

Income Taxes – Income tax expense decreased $296,308, or 10%, from fiscal 2009 corresponding to a 9% decrease in pre-tax earnings. The effective tax rate for fiscal 2010 was 37.7% compared to 38.0% in fiscal 2009.

Net Income and Dividends – Income from continuing operations for fiscal 2010 was $4,445,436 compared to $4,869,010 for fiscal 2009. Basic and diluted earnings per share were $1.97 and $1.96 in fiscal 2010 compared to $2.19 and $2.18 in fiscal 2009. Dividends declared per share of common stock were $1.32 in fiscal 2010 and $1.28 in fiscal 2009.

ASSET MANAGEMENT

Roanoke Gas uses a third-party asset manager to manage its pipeline transportation, 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. In September 2010, Roanoke Gas executed a new three-year agreement with the incumbent asset manager to continue to provide the same services including the payment of the monthly utilization fee.

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 for the funding of its continuing construction program, the seasonal funding of its natural gas inventories and 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 decreased by $676,730 in fiscal 2010 compared to a $6,546,924 increase in fiscal 2009. The following table summarizes the categories of sources and uses of cash:

Cash Flow Summary	2010	2009
Provided by operating activities	$ 7,118,804	$ 22,705,812
Used in investing activities	(5,963,321)	(5,224,954)
Used in financing activities	(1,832,213)	(10,933,934)
Increase (decrease) in cash and cash equivalents	$ (676,730)	$ 6,546,924

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 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 the increases in natural gas storage levels, rising customer receivable balances and construction activity. In fiscal 2010, cash provided by continuing operating activities decreased by approximately $15,587,000, from $22,706,000 in fiscal 2009 to $7,119,000 in fiscal 2010. Fiscal 2009 had significantly higher cash generated from operating activities primarily due to an increase in over-collection of gas costs combined with reductions in gas in storage and accounts receivable all resulting from significant declines in the commodity price of natural gas. Cash provided by operations in fiscal 2010 was derived from a combination of net income and depreciation. The commodity price of natural gas continued its decline in 2010 leading to further reductions in gas in storage, accounts receivable and accounts payable. As a result of the declining price of natural gas, the average price of natural gas in storage declined from $9.81 per decatherm at September 30, 2008, to $6.05 at September 30, 2009, to $5.26 at September 30, 2010. The Company also began refunding the prior over-collection of gas costs in January 2010 resulting in a nearly $3,000,000 net refund to its customers during fiscal 2010. Furthermore, the extension of bonus depreciation for tax purposes contributed to the positive operating cash flow as the Company's deferred tax liability continued to increase. The Company has more than $10,000,000 in deferred tax liabilities related to accelerated and bonus depreciation on its utility plant. Over the next few years, the Company expects these liabilities to begin to reverse resulting in additional cash outflows for income taxes.

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 $738,000 due to higher capital expenditures and $500,000 proceeds from the sale of a short-term investment in fiscal 2009. Total capital expenditures from continuing operations were approximately $5,974,000 and $5,753,000 for the years ended September 30, 2010 and 2009, respectively. The ongoing depressed economic environment has continued to limit system expansion and customer growth with much of the capital expenditures related to pipeline and facilities replacement. The Company continued its pipeline renewal program with 6.4 miles of natural gas distribution main replaced and 420 services renewed in fiscal 2010 compared to 5.6 miles of main and 684 services in fiscal 2009. There are approximately 66 miles of cast iron and bare steel pipe remaining to be replaced. The Company plans to continue its focus on pipeline renewals in 2011 and expects such expenditures to continue at comparable or higher levels for the next several years. Operating cash flow provided by depreciation contributed approximately $3,960,000 and $3,815,000 in support of fiscal 2010 and 2009 capital expenditures, or approximately 66% of the total investment during both years. The Company also relies on its line-of-credit agreement, other operating cash flows and long-term debt financing to provide the balance of the underlying funding for its capital expenditures.

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. During fiscal 2010, the Company did not access its line-of-credit because of its strong cash position due to declining natural gas prices. Cash flow used in financing activities declined $9,102,000, from $10,934,000 in fiscal 2009 to $1,832,000 in fiscal 2010. The primary factor in the reduction in cash used for financing activities is attributable to the net pay down in the Company's line-of-credit balance in fiscal 2009. The Company entered into a $5,000,000 variable rate note in October 2008 and used the proceeds to refinance a portion of the line-of-credit balance that provided temporary funding for the retirement of a $5,000,000 first mortgage note which had matured in July 2008.

On March 29, 2010 the Company renewed its line-of-credit agreement for Roanoke Gas. The new agreement maintained the same terms and rates as provided for under the expiring 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 the overall borrowing costs. Under the new agreement, the Company's total available limits during its term range from $1,000,000 to $13,000,000. The line-of-credit agreement will expire March 31, 2011, 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 on terms comparable to those currently in place.

The Company's $15,000,000 unsecured variable rate note was scheduled to mature December 1, 2010. On October 20, 2010, the Company executed a modification of the note with the current lender under the same terms and covenants providing for the extension of the maturity date until March 31, 2012. Due to the current 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 currently in place until such time the corresponding swap on the note matures on December 1, 2015.

The remainder of the financing cash flows was associated with approximately $1,032,000 of proceeds related to stock issuances, $87,000 receipt on the note with ANGD, LLC and approximately $2,950,000 in dividends paid.

As the commodity price of natural gas appears to have stabilized after a two year decline, the pipeline renewal program continues and the refunding of the prior year gas cost over-collection is completed, the Company's cash position will return to a pattern more consistent with historical norms, which includes seasonal borrowing under the Company's line-of-credit arrangement. If natural gas prices continue to remain at their current low levels, short-term borrowing needs will be limited. If inflationary pressures, increasing demand or supply issues begin to elevate the price of natural gas, the Company will be much more dependent on the seasonal funding provided by its line-of-credit to support the Company's operations.

The Company expects that cash provided by operations combined with its line-of-credit will be sufficient to meet operating and projected capital expenditure requirements and to pay shareholder dividends for 2011 and the foreseeable future.

At September 30, 2010 and 2009, the Company's consolidated long-term capitalization was 62% equity and 38% debt.

REGULATORY AFFAIRS

On September 13, 2010, the Company filed a request for an expedited increase in rates with the SCC. The request was for an increase of approximately $1,400,000 in annual non-gas revenues. As allowed under Virginia law for an expedited rate request, the Company placed the increased rates into effect for service rendered on and after November 1, 2010, subject to refund pending a final order by the SCC. The public hearing on the request for this rate increase is scheduled for March 24, 2011, with a final order expected some time after that date.

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 applicable regulatory assets or liabilities from the balance sheet and include them in the consolidated statement of income and comprehensive income for the period in which the discontinuance occurred.

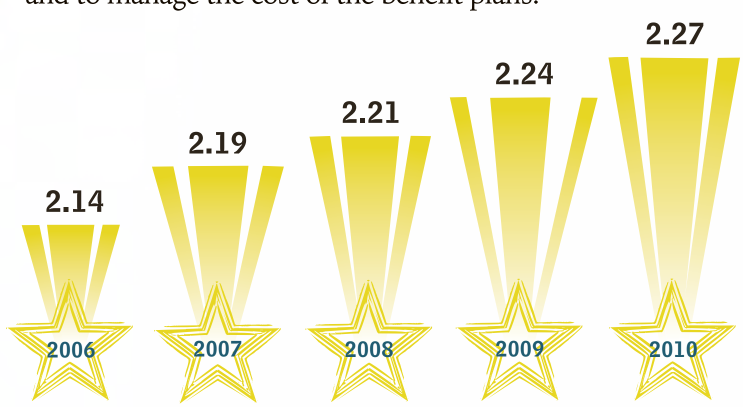
Revenue recognition – Regulated utility sales and transportation revenues are based upon rates approved by the SCC. The non-gas cost component of rates may not be changed without a formal rate increase application and corresponding authorization by the SCC in the form of a Commission order; however, the gas cost component of rates are adjusted quarterly through the purchased gas adjustment ("PGA") mechanism with administrative approval from the SCC.

The Company bills its regulated natural gas customers on a monthly cycle. The billing cycle for most customers does not coincide with the accounting periods used for financial reporting. The Company accrues estimated revenue for natural gas delivered to customers not yet billed during the accounting period. Determination of unbilled revenue relies on the use of estimates, weather during the period and current and historical data. The financial statements included unbilled revenue of $1,070,062 and $1,173,561 as of September 30, 2010 and 2009.

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 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, as disclosed in Note 6 to the consolidated financial statements, are based on numerous assumptions and factors, including provisions of the plans, employee demographics, contributions made to the plan, return on plan 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.

In selecting the discount rate to be used in determining the benefit liability, the Company considered the rates of return on high-quality fixed-income investments that corresponded to the length and timing of benefit streams expected under both the pension plan and postretirement plan. The Company used a discount rate of 5.25% and 5.00% for valuing its pension benefit liability and postretirement plan liability at September 30, 2010, representing a decrease of 0.25% and 0.50% in the respective discount rates from the prior year. The Company based the discount rate assumption on high-quality fixed-income investments with maturity schedules spanning the expected payment stream of the benefits. The decrease in the discount rates was a primary factor in the overall increase in the benefit plan liabilities on the balance sheet and increase in expense in fiscal 2011. The Company also used an asset/liability model to evaluate the probability of meeting the returns on its targeted investment allocation model. The investment policy as of the measurement date in September reflected a targeted allocation of 60% equity and 40% fixed income for an assumed long-term rate of return of 7.25% on the pension plan and a targeted allocation of 50% equity and 50% fixed income for an assumed long-term rate of return of 5.14% (net of income taxes) for the postretirement plan. Based on the assumptions described above and in Note 6, pension expense is expected to increase from approximately $759,000 in fiscal 2010 to $787,000 in fiscal 2011 and postretirement expense is expected to rise from approximately $606,000 in fiscal 2010 to $808,000 in fiscal 2011. The Company expects to contribute approximately $1,000,000 to its pension plan and $700,000 to its postretirement plan in fiscal 2011. Funding levels are expected to remain at this level or higher over the next several years. The Company anticipates being able to meet the funding needs of these plans and recover benefit plan expenses through its non-gas rates. The Company will continue to evaluate its benefit plan funding levels in light of the requirements under the Pension Protection Act of 2006 and ongoing investment returns and make adjustments as necessary to avoid benefit restrictions and to manage the cost of the benefit plans.



SHARES OUTSTANDING
(in millions)

The following schedule reflects the sensitivity of pension costs to changes in certain actuarial assumptions, assuming that the other components of the calculation remain constant.

Actuarial Assumption	Change in Assumption	Impact on Pension Cost	Impact on Projected Benefit Obligation
Discount rate	-0.25%	$ 82,000	$ 740,000
Rate of return on plan assets	-0.25%	32,000	N/A
Rate of increase in compensation	0.25%	101,000	536,000

The following schedule reflects the sensitivity of postretirement benefit costs from changes in certain actuarial assumptions, while the other components of the calculation remain constant.

Actuarial Assumption	Change in Assumption	Impact on Postretirement Benefit Cost	Impact on Accumulated Postretirement Benefit Obligation
Discount rate	-0.25%	$ 32,000	$ 428,000
Rate of return on plan assets	-0.25%	17,000	N/A
Health care cost trend rate	0.25%	33,000	446,000

Derivatives – The Company may hedge certain risks incurred in its operation 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 the future. 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.

MARKET RISK

The Company is exposed to market risks through its natural gas operations associated with commodity prices. The Company's hedging and derivatives policy, as authorized by the Company's Board of Directors, allows management to enter into both physical and financial transactions for the purpose of managing commodity risk of its business operations. The policy also specifies that the combination of all commodity hedging contracts for any 12-month period shall not exceed a total hedged volume of 90% of projected volumes. Finally, the policy specifically prohibits the utilization of derivatives for the purposes of speculation.

The Company manages the price risk associated with purchases of natural gas by using a combination of liquefied natural gas (LNG) storage, storage gas, fixed price contracts, spot market purchases and derivative commodity instruments including futures, price caps, swaps and collars.

As of September 30, 2010, the Company has collar agreements outstanding for the purpose of hedging the price of natural gas during the winter period for 1,300,000 decatherms. In addition, the Company also has approximately 2,626,000 decatherms of gas in storage at an average price of $5.26 per decatherm. The SCC currently allows for full recovery of prudent costs associated with natural gas purchases, and any additional costs or benefits associated with the settlement of the derivative contracts and other price hedging techniques will be passed through to customers when realized through the regulated natural gas PGA mechanism.

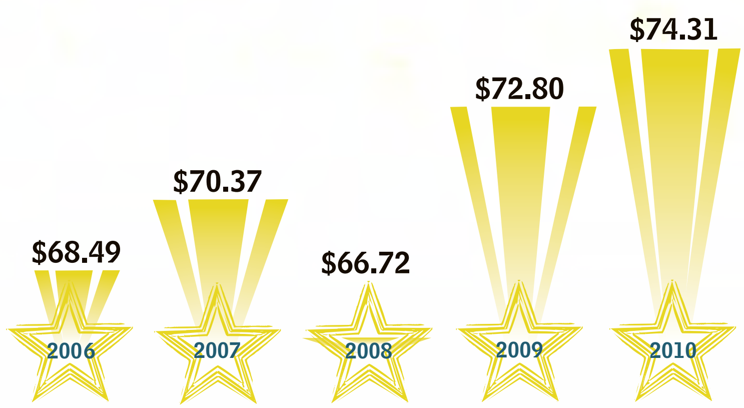
The Company also has a variable rate line-of-credit with a bank with the interest rate based on the London Interbank Offered Rate ("LIBOR"). As of September 30, 2010, the Company had no outstanding balance under its line-of-credit.

OTHER RISKS

The Company is exposed to risks other than commodity and interest rates. Such events, situations or conditions have or potentially could have an impact on the future results of operations of the Company. For most of the items described below, Roanoke Gas has a means to recover increased costs through formal rate application filings, as well as the ability to pass along increases in natural gas cost.

Regulatory and Governmental Actions – As discussed above, Virginia has a means to allow the regulated operations of the Company to recover increased costs and earn a reasonable rate of return on equity. The SCC is the state agency responsible for regulating the operations of Roanoke Gas and approves the rates charged to its customers. If the SCC were to impose limitations that delayed or prohibited the Company from placing rates into effect to timely recover costs and earn its authorized rate of return, the earnings of the Company could be negatively impacted. Furthermore, legislation at the state or federal level could result in increased costs and place additional burdens on the Company.

Environmental Legislation – The passage of environmental legislation that mandates reductions in carbon emissions or other similar restrictions could have a negative effect on the Company over the long-term as it relates to the Company's core operations. Natural gas is a clean and efficient energy source; however, the combustion of natural gas results in carbon related emissions. The extent to



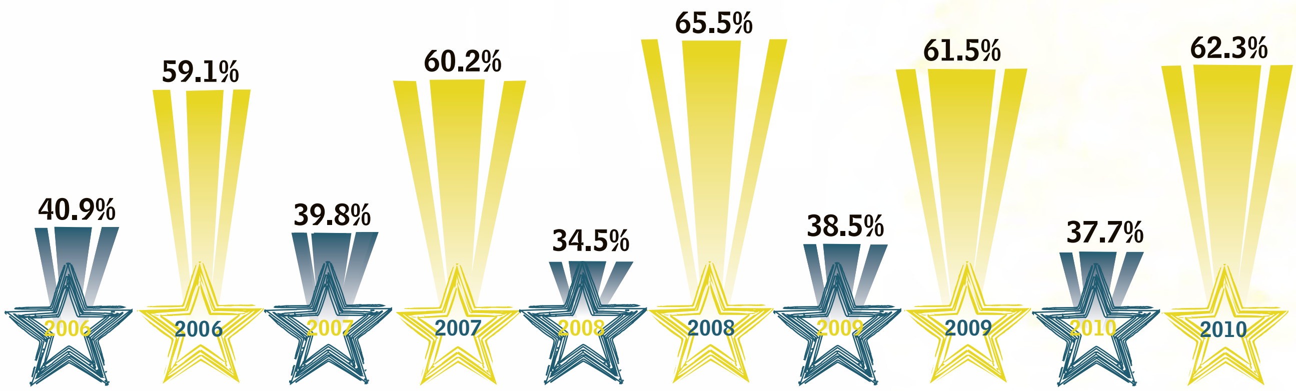
TOTAL CAPITALIZATION
(in millions)

which carbon emissions would be restricted under any such legislation and the ability of technological improvements to minimize such emissions would be critical in determining any potential impact to the Company.

In 2009, the U. S. House of Representatives approved H.R. 2454, *"The American Clean Energy and Security Act of 2009"*, sometimes referred to as the Waxman-Markey Climate Change Bill. A companion bill, *"The American Power Act"*, sometimes referred to as the Kerry-Lieberman Bill, was introduced in the U. S. Senate in 2010, but was not approved. Both bills are designed to reduce the level of carbon dioxide emissions from burning fossil fuels such as coal, oil and natural gas. Limits on carbon emissions could lead to a gradual reduction in the use of fossil fuels, including natural gas, in the U.S. economy. A federally mandated reduction in natural gas consumption would likely negatively impact company operations, if legislation does not adequately reflect the lower emissions generated by natural gas consumption. The election held on November 2, 2010 materially changed the makeup of the U.S. House of Representatives and U.S. Senate, lessening the likelihood of passage of carbon emissions reduction legislation in 2011 or 2012.

Energy Prices and Inflation – Energy costs represent the single largest expense of the Company with the cost of natural gas representing approximately 73% and 76% for fiscal 2010 and 2009 of the total operating expenses of the Company's natural gas utility operations. Increases or decreases in natural gas costs are passed through to customers under the present PGA mechanism. As discussed above, increases in the commodity price of natural gas may cause existing customers to conserve, switch to alternate sources of energy or be unable to pay their natural gas bills. On the other side, declining natural gas prices reduce the level of inventory carrying cost revenues that the Company realizes.

Rising costs affect the Company through increases in non-gas costs such as property and liability



CAPITALIZATION RATIOS
(in percentages)

insurance, labor costs, employee benefits, supplies, contracted services and the replacement cost of plant and equipment. The rates charged to natural gas customers to cover these costs may only be increased through the regulatory process through a non-gas cost rate increase application. Because of the inherent lag in the rate application process for increases in the non-gas cost portion of rates, approved Company billing rates may not keep pace with costs during inflationary periods. Management must continually review operations and economic conditions to assess the need for filing and receiving adequate and timely rate relief from the SCC.

Pipeline Reliability – Roanoke Gas is served directly by two primary pipelines. These two pipelines provide 100% of the natural gas supplied to the Company's customers. Depending upon 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.

Customer Credit – Gas costs represent a major portion of the total customer bill. The Company has worked diligently at minimizing bad debts and bad-debt write offs. However, significant increases or spikes in natural gas prices could result in an increased rate of delinquencies as customers face higher natural gas bills as well as other higher energy costs. Furthermore, adverse economic conditions and rising unemployment could also lead to an increase in delinquency of customer payments and higher bad debts. In addition, the SCC has specific notice requirements that the Company must first comply with before disconnecting natural gas service for customer nonpayment. Although the depressed economic environment that began prior to last year has continued through fiscal 2010, bad debts have remained at lower levels due to the continuing decline in the commodity price of natural gas.

Weather – The nature of the Company's business is highly dependent upon weather – specifically, winter weather. Cold weather increases energy consumption by customers and therefore increases revenues and margins. Conversely, warm weather reduces energy consumption and ultimately revenues and margins. Roanoke Gas Company's rate structure has a weather normalization adjustment factor that operates around a weather band of approximately 3% above and below the 30 year average for heating degree-days. This weather band significantly reduces the exposure to weather risk by limiting the impact of warmer than normal weather to no more than 3% from the 30 year average. Conversely, the protection provided by the weather band to the downside risk also limits the upside potential from colder than normal weather by the same 3%.

Credit and Capital Availability – The capital intensive and seasonal nature of the utility operations requires the access to sufficient levels of debt and equity capital. The ongoing economic issues on the local and national levels have impacted the cost and availability of short-term and long-term credit funding. The inability to obtain funding when needed, or obtain funding only on less than favorable terms, could have a significant negative impact to the Company.

CAPITALIZATION RATIOS

YEARS ENDED SEPTEMBER 30,	2010	2009	2008	2007	2006
COMMON STOCK:					
Shares Issued	2,274,432	2,238,987	2,209,471	2,186,143	2,138,595
Continuing Operations:					
Basic Earnings Per Share	$ 1.97	$ 2.19	$ 1.94	$ 1.74	$ 1.40
Diluted Earnings Per Share	$ 1.96	$ 2.18	$ 1.93	$ 1.73	$ 1.39
Discontinued Operations:					
Basic Earnings Per Share	$ –	$ –	$ (0.02)	$ 0.02	$ 0.26
Diluted Earnings Per Share	$ –	$ –	$ (0.02)	$ 0.02	$ 0.26
Dividends Paid Per Share (Cash)	$ 1.32	$ 1.28	$ 1.25	$ 1.22	$ 1.20
Dividends Paid Out Ratio	67.0%	58.4%	65.1%	69.3%	72.3%
CAPITALIZATION RATIOS:					
Long-Term Debt, Including Current Maturities	37.7	38.5	34.5	39.8	40.9
Common Stock And Surplus	62.3	61.5	65.5	60.2	59.1
Total	100.0	100.0	100.0	100.0	100.0
Long-Term Debt, Including Current Maturities	$ 28,000,000	$ 28,000,000	$ 23,000,000	$ 28,000,000	$ 28,000,000
Common Stock And Surplus	46,309,747	44,799,871	43,723,058	42,365,233	40,494,868
Total Capitalization Plus Current Maturities	$ 74,309,747	$ 72,799,871	$ 66,723,058	$ 70,365,233	$ 68,494,868

MARKET PRICE AND DIVIDEND INFORMATION

RGC Resources' common stock is listed on the Nasdaq National Market under the trading symbol RGCO. Payment of dividends is within the discretion of the Board of Directors and will depend on, among other factors, earnings, capital requirements, and the operating and financial condition of the Company. The Company's long-term indebtedness contains restrictions on dividends based on cumulative net earnings and dividends previously paid.

FISCAL YEAR ENDED SEPTEMBER 30,	RANGE OF BID PRICES HIGH	LOW	CASH DIVIDENDS DECLARED
2010			
First Quarter	$ 30.55	$ 25.91	$ 0.330
Second Quarter	31.99	29.00	0.330
Third Quarter	32.05	30.28	0.330
Fourth Quarter	32.09	30.01	0.330
2009			
First Quarter	$ 30.07	$ 24.15	$ 0.320
Second Quarter	28.00	21.92	0.320
Third Quarter	27.38	22.95	0.320
Fourth Quarter	30.78	24.94	0.320

SUMMARY OF GAS SALES AND STATISTICS

YEARS ENDED SEPTEMBER 30,	2010	2009	2008	2007	2006
REVENUES:					
Residential Sales	$ 43,179,538	$ 47,544,448	$ 52,927,761	$ 50,791,195	$ 52,274,204
Commercial Sales	25,793,022	29,909,205	36,507,326	34,566,385	36,159,320
Interruptible Sales	592,505	635,301	1,509,193	1,379,870	3,054,240
Transportation Gas Sales	2,674,151	2,506,958	2,428,656	2,254,594	2,067,929
Backup Services	–	300	3,600	3,600	3,600
Late Payment Charges	63,949	56,718	55,410	55,438	70,191
Miscellaneous Gas Utility Revenue	123,493	133,298	174,647	124,579	116,924
Other	1,397,256	1,398,245	1,030,233	725,640	844,464
Total	$ 73,823,914	$ 82,184,473	$ 94,636,826	$ 89,901,301	$ 94,590,872
NET INCOME					
Continuing Operations	$ 4,445,436	$ 4,869,010	$ 4,257,824	$ 3,765,669	$ 2,961,802
Discontinued Operations	–	–	(36,690)	40,540	549,729
Net Income	$ 4,445,436	$ 4,869,010	$ 4,221,134	$ 3,806,209	$ 3,511,531
DTH DELIVERED:					
Residential	3,910,639	3,866,956	3,557,249	3,778,194	3,588,364
Commercial	2,712,692	2,830,782	2,785,701	2,886,403	2,793,988
Interruptible	79,858	75,061	128,875	138,176	278,535
Transportation Gas	2,610,962	2,487,670	2,779,429	2,735,456	2,853,500
Total	9,314,151	9,260,469	9,251,254	9,538,229	9,514,387
HEATING DEGREE DAYS	4,047	3,914	3,624	3,735	3,714
NUMBER OF CUSTOMERS:					
Natural Gas					
Residential	51,922	51,069	50,630	50,371	49,649
Commercial	5,020	5,018	5,026	5,017	4,948
Interruptible and Interruptible					
Transportation Service	33	32	33	32	32
Total	56,975	56,119	55,689	55,420	54,629
GAS ACCOUNT (DTH):					
Natural Gas Available	9,561,029	9,549,231	9,528,890	9,744,431	9,703,011
Natural Gas Deliveries	9,314,151	9,260,469	9,251,254	9,538,229	9,514,387
Storage - LNG	136,972	124,925	122,874	65,279	98,936
Company Use And Miscellaneous	47,759	39,697	45,180	28,862	36,321
System Loss	62,147	124,140	109,582	112,061	53,367
Total Gas Available	9,561,029	9,549,231	9,528,890	9,744,431	9,703,011
TOTAL ASSETS	$ 120,683,316	$ 118,801,892	$ 118,127,714	$ 116,332,455	$ 114,662,572
LONG-TERM OBLIGATIONS	$ 28,000,000	$ 28,000,000	$ 23,000,000	$ 23,000,000	$ 28,000,000

CORPORATE INFORMATION

CORPORATE OFFICE
RGC RESOURCES, INC.

519 Kimball Avenue, N.E.
P.O. Box 13007
Roanoke, VA 24030
Tel (540) 777-4GAS (4427)
Fax (540) 777-2636

INDEPENDENT REGISTERED ACCOUNTING FIRM

Brown Edwards & Company, L.L.P.
319 McClanahan Street, S.W.
Roanoke, VA 24014

COMMON STOCK TRANSFER AGENT, REGISTRAR, DIVIDEND DISBURSING

American Stock Transfer &
Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
(866) 673-8053

COMMON STOCK

RGC Resources' common stock is listed on the NASDAQ/ National Market under the trading symbol RGCO.

DIRECT DEPOSIT OF DIVIDENDS AND SAFEKEEPING OF STOCK CERTIFICATES

Shareholders can have their cash dividends deposited automatically into checking, savings or money market accounts. The shareholder's financial institution must be a member of the Automated Clearing House. Also, RGC Resources offers safekeeping of stock certificates for shares enrolled in the dividend reinvestment plan. For more information about these shareholder services, please contact the Transfer Agent, American Stock Transfer & Trust Company, LLC.

10-K REPORT

A copy of RGC Resources, Inc.'s latest annual report to the Securities & Exchange Commission on Form 10-K will be provided without charge upon written request to:

Dale P. Lee
Vice President and Secretary
RGC Resources, Inc.
P.O. Box 13007
Roanoke, VA 24030
(540) 777-3846

Access all of RGC Resources Inc.'s Securities and Exchange filings through the links provided on our website at www.rgcresources.com.

SHAREHOLDER INQUIRIES

Questions concerning shareholder accounts, stock transfer requirements, consolidation of accounts, lost stock certificates, safekeeping of stock certificates, replacement of lost dividend checks, payment of dividends, direct deposit of dividends, initial cash payments, optional cash payments and name or address changes should be directed to the Transfer Agent, American Stock Transfer & Trust Company, LLC. All other shareholder questions should be directed to:

RGC Resources, Inc.
Vice President and Secretary
P.O. Box 13007
Roanoke, VA 24030
(540) 777-3846

FINANCIAL INQUIRIES

All financial analysts and professional investment managers should direct their questions and requests for financial information to:

RGC Resources, Inc.
Vice President and Secretary
P.O. Box 13007
Roanoke, VA 24030
(540) 777-3846

Access up-to-date information on RGC Resources and its subsidiaries at www.rgcresources.com.

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Trading on NASDAQ as RGCO