

RGC RESOURCES INC
Form 10-Q/A
April 21, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A Amendment No. 1

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended December 31, 2003

Commission File Number 000-26591

RGC Resources, Inc.

(Exact name of Registrant as Specified in its Charter)

VIRGINIA
(State or Other Jurisdiction of

Incorporation or Organization)

519 Kimball Ave., N.E., Roanoke, VA
(Address of Principal Executive Offices)

54-1909697
(I.R.S. Employer

Identification No.)

24016
(Zip Code)

(540) 777-4427

(Registrant's Telephone Number, Including Area Code)

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

<u>Class</u>	<u>Outstanding at December 31, 2003</u>
Common Stock, \$5 Par Value	2,014,576

EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q of RGC Resources Inc. and Subsidiaries for the quarter ended December 31, 2003 is being filed for the purpose of amending and revising the Condensed Consolidated Balance Sheets Unaudited and Condensed Note 10 to the Condensed Consolidated Financial Statements Unaudited. In accordance with accounting guidance issued subsequent to the original 10-Q filing on February 13, 2004, the originally filed Quarterly Report on Form 10-Q is being amended to reflect the reclassification of amounts recorded for the cost of removal of utility plant, previously recognized within accumulated depreciation, as a separate liability and a regulatory liability for the periods ended December 31, 2003, and September 30, 2003. This amendment does not reflect events occurring after the original filing of the Form 10-Q or modify or update those disclosures except as stated in the preceding sentence.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

	December 31, 2003	September 30, 2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,412,945	\$ 135,998
Accounts receivable - (less allowance for uncollectibles of \$741,799 and \$318,899, respectively)	18,902,360	6,183,162
Inventories	2,710,830	2,559,306
Prepaid gas service	10,995,800	14,782,752
Prepaid income taxes		1,079,802
Deferred income taxes	2,007,411	1,605,509
Under-recovery of gas costs	862,513	790,126
Unrealized gains on marked-to-market transactions	503,330	
Other	1,032,883	541,322
	<u>38,428,072</u>	<u>27,677,977</u>
Property, Plant And Equipment:		
Utility plant in service	97,035,515	96,385,022
Accumulated depreciation and amortization	(33,788,153)	(33,136,643)
	<u>63,247,362</u>	<u>63,248,379</u>
Utility plant in service, net		63,248,379
Construction work in progress	2,476,600	1,992,222
	<u>65,723,962</u>	<u>65,240,601</u>
Utility Plant, Net		
	<u>65,723,962</u>	<u>65,240,601</u>
Nonutility property		
Nonutility property	21,019,094	20,793,278
Accumulated depreciation and amortization	(9,018,341)	(8,832,823)
	<u>12,000,753</u>	<u>11,960,455</u>
Nonutility property, net		
	<u>12,000,753</u>	<u>11,960,455</u>
Total property, plant and equipment		
	<u>77,724,715</u>	<u>77,201,056</u>
Other Assets:		
Goodwill	298,314	298,314
Other assets	774,220	769,754
	<u>1,072,534</u>	<u>1,068,068</u>
Total other assets		
	<u>1,072,534</u>	<u>1,068,068</u>
Total Assets		
	<u>\$ 117,225,321</u>	<u>\$ 105,947,101</u>

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

UNAUDITED

	December 31, 2003	September 30, 2003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt	\$ 32,959	\$ 1,032,372
Borrowings under lines of credit	19,080,000	12,992,000
Dividends payable	574,562	571,458
Accounts payable	12,222,268	9,289,899
Income taxes payable	613,371	
Customer deposits	620,628	477,465
Accrued expenses	4,273,320	4,798,106
Refunds from suppliers due customers	44,776	42,320
Overrecovery of gas costs	2,611,624	1,172,585
Unrealized losses on marked to market transactions	189,381	319,264
Total current liabilities	40,262,889	30,695,469
Long-term Debt, Excluding Current Maturities	30,211,523	30,219,987
Deferred Credits:		
Asset retirement obligations	5,706,666	5,449,702
Deferred income taxes	5,584,358	5,457,991
Deferred investment tax credits	258,046	266,338
Total deferred credits	11,549,070	11,174,031
Stockholders' Equity:		
Common stock, \$5 par value; authorized, 10,000,000 shares; issued and outstanding 2,014,576 and 2,003,232 shares, respectively	10,072,880	10,016,160
Preferred stock, no par, authorized, 5,000,000 shares; no shares issued and outstanding		
Capital in excess of par value	12,179,869	11,977,084
Retained earnings	13,043,761	12,018,920
Accumulated other comprehensive loss	(94,671)	(154,550)
Total stockholders' equity	35,201,839	33,857,614
Total Liabilities and Stockholders' Equity	\$ 117,225,321	\$ 105,947,101

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

FOR THE THREE-MONTH PERIODS ENDED DECEMBER 31, 2003 AND 2002

UNAUDITED

	Three Months Ended	
	December 31,	
	2003	2002
Operating Revenues:		
Gas utilities	\$ 25,232,488	\$ 21,093,267
Propane operations	4,367,615	4,449,776
Energy marketing	4,493,413	2,716,562
Other	207,256	196,522
Total operating revenues	<u>34,300,772</u>	<u>28,456,127</u>
Cost of Sales:		
Gas utilities	18,632,493	14,931,493
Propane operations	2,385,019	2,104,523
Energy marketing	4,436,987	2,643,631
Other	88,700	110,683
Total cost of sales	<u>25,543,199</u>	<u>19,790,330</u>
Operating Margin	<u>8,757,573</u>	<u>8,665,797</u>
Other Operating Expenses:		
Operations	3,431,849	3,410,902
Maintenance	354,071	360,906
General taxes	470,463	459,076
Depreciation and amortization	1,369,518	1,335,529
Total other operating expenses	<u>5,625,901</u>	<u>5,566,413</u>
Operating Income	3,131,672	3,099,384
Other Expenses, net	(881)	39,309
Interest Expense	544,966	554,576
Income Before Income Taxes	<u>2,587,587</u>	<u>2,505,499</u>
Income Tax Expense	988,184	967,362
Net Income	<u>\$ 1,599,403</u>	<u>\$ 1,538,137</u>

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

Basic Earnings Per Common Share	\$ 0.80	\$ 0.78
Diluted Earnings Per Common Share	\$ 0.79	\$ 0.78

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE THREE-MONTH PERIODS ENDED DECEMBER 31, 2003 AND 2002

UNAUDITED

	Three Months Ended	
	December 31,	
	2003	2002
Net Income	\$ 1,599,403	\$ 1,538,137
Reclassification of loss (gain) transferred to net income	19,650	(73,772)
Unrealized gain (loss) on cash flow hedges	40,229	(83,038)
Other comprehensive income (loss), net of tax	59,879	(156,810)
Comprehensive Income	\$ 1,659,282	\$ 1,381,327

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE-MONTH PERIODS ENDED DECEMBER 31, 2003 AND 2002

UNAUDITED

	Three Months Ended	
	December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 1,599,403	\$ 1,538,137
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,428,757	1,391,516
Gain on asset disposition	(14,853)	(3,467)
Deferred taxes and investment tax credits	(283,827)	350,236
Changes in assets and liabilities which provided (used) cash, exclusive of changes and noncash transactions shown separately	(4,540,104)	(7,627,352)
Net cash used in operating activities	(1,810,624)	(4,350,930)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to utility plant and nonutility property	(1,712,366)	(1,891,849)
Cost of removal of utility plant, net	(26,239)	1,415
Proceeds from sales of assets	58,006	10,861
Net cash used in investing activities	(1,680,599)	(1,879,573)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	2,000,000	8,000,000
Retirement of long-term debt and capital leases	(2,132,876)	(32,330)
Net borrowings (repayments) under lines of credit	5,213,000	(1,396,000)
Cash dividends paid	(571,459)	(559,070)
Proceeds from issuance of stock	259,505	215,070
Net cash provided by financing activities	4,768,170	6,227,670
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,276,947	(2,833)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	135,998	288,030
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,412,945	\$ 285,197
SUPPLEMENTAL INFORMATION:		
Interest paid	\$ 718,438	\$ 922,940
Income taxes refunded, net	(383,928)	(825,067)

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

Noncash transactions:

The Company executed a \$2,000,000 intermediate term note in October 2003, which resulted in the reclassification of \$1,125,000 from current maturities of long-term debt and \$875,000 from borrowings under lines of credit to long-term debt on the September 30, 2003 balance sheet as the Company met the requirements for making the reclassification.

See notes to condensed consolidated financial statements.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

1. 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 December 31, 2003 and the results of its operations and its cash flows for the three months ended December 31, 2003 and 2002. Because of seasonal and other factors, the results of operations for the three months ended December 31, 2003 are not indicative of the results to be expected for the fiscal year ending September 30, 2004. Quarterly earnings are affected by the highly seasonal nature of the business as variations in weather conditions generally result in greater earnings during the winter months.
2. The condensed consolidated financial statements and condensed notes are presented as permitted by 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.
3. On October 1, 2003, Bluefield Gas Company executed a \$2,000,000 unsecured 26 month note to refinance a portion of its maturing long-term debt and a portion of its outstanding line-of-credit balance. The note has a variable interest rate based on 30-day LIBOR plus 113 basis point spread. The note maturity was structured to correspond with maturity periods of other debt instruments of RGC Resources, Inc. to allow for a more comprehensive debt offering in the future. Because the Company had both the intent and ability to execute the note at the end of its fiscal year, the Company reclassified the \$2,000,000 from current maturities of long-term debt and lines-of-credit to long-term debt on its September 30, 2003 Balance Sheet.
4. 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 RGC Resources, Inc. would seek to hedge include the price of natural gas and propane gas and the cost of borrowed funds.

The Company has historically entered into futures, swaps and caps for the purpose of hedging the price of propane in order to provide price stability during the winter months. During 2003, the Company had entered into propane price cap arrangements due to the uncertainty of energy prices during the current heating season. The price caps provide protection against increasing prices and allow the Company to benefit from reductions in energy prices. The price caps qualify as cash flow hedges; therefore, changes in the fair value are reported in other comprehensive income. No portion of the hedges were ineffective during the three months ended December 31, 2003 and 2002.

In addition, the Company has historically entered into futures, swaps and caps for the purpose of hedging the price of natural gas in order to provide price stability during the winter months. During 2003, the Company had entered into both price caps and swap

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

arrangements for the purchase of natural gas. The fair value of these instruments is recorded in the balance sheet with the offsetting entry to over-recovery or under-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 through the regulated natural gas purchased gas adjustment (PGA) mechanism. Both the Virginia State Corporation Commission (SCC) and the West Virginia Public Service Commission (PSC) currently allow for full recovery of prudent costs associated with natural gas purchases, and any additional costs or benefits associated with the settlement of these instruments will be passed through to customers when realized.

The Company also entered into an interest rate swap related to the \$8,000,000 note issued in November 2002. The swap essentially converted the three-year floating rate note into fixed rate debt with a 4.18 percent interest rate. The swap qualifies as a cash flow hedge with changes in fair value reported in other comprehensive income.

A summary of the derivative activity is provided below:

	<u>Propane Derivatives</u>	<u>Interest Rate Swap</u>	<u>Natural Gas Derivative</u>	<u>Total</u>
Three Months Ended December 31, 2003				
Unrealized gains/(losses) on derivatives	\$ 47,082	\$ 18,513	\$	\$ 65,595
Income tax (expense)/benefit	(18,338)	(7,028)		(25,366)
Net unrealized gains/(losses)	28,744	11,485		40,229
Transfer of realized losses/(gains) to income	(9,702)	41,220		31,518
Income tax (benefit)/expense	3,779	(15,647)		(11,868)
Net transfer of realized losses/(gains) to income	(5,923)	25,573		19,650
Net other comprehensive income/(loss)	\$ 22,821	\$ 37,058	\$	\$ 59,879
Unrealized gain/(loss) on marked to market transactions	\$ 37,380	\$ (189,381)	465,950	\$ 313,949
Accumulated comprehensive income/(loss)	22,821	\$ (117,492)		\$ (94,671)

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

	<u>Propane Derivatives</u>	<u>Interest Rate Swap</u>	<u>Natural Gas Derivative</u>	<u>Total</u>
Three Months Ended December 31, 2002				
Unrealized gains/(losses) on derivatives	\$ 80,498	\$ (213,059)	\$	\$ (132,561)
Income tax (expense)/benefit	(31,354)	80,877		49,523
Net unrealized gains/(losses)	49,144	(132,182)		(83,038)
Transfer of realized losses/(gains) to income	(120,839)			(120,839)
Income tax benefit/expense	47,067			47,067
Net transfer of realized losses/(gains) to income	(73,772)			(73,772)
Net other comprehensive income/(loss)	\$ (24,628)	\$ (132,182)	\$	\$ (156,810)
Unrealized gain/(loss) on marked to market transactions	\$ 179,550	\$ (213,059)	1,351,500	\$ 1,317,991
Accumulated comprehensive income/(loss)	109,615	\$ (132,182)		\$ (22,567)

- Basic earnings per common share are based on the weighted average number of shares outstanding during each period. The weighted average number of shares outstanding for the three-month period ended December 31, 2003 was 2,010,247 compared to 1,967,635 for the same period last year. The weighted average number of shares outstanding assuming dilution was 2,021,897 for the three-month period ended December 31, 2003 compared to 1,968,735 for the same period last year. The difference between the weighted average number of shares for the calculation of basic and diluted earnings per share relates to the dilutive effect associated with the assumed issuance of stock options as calculated using the Treasury Stock method.
- RGC Resources, Inc.'s reportable segments are included in the following table. The segments are comprised of natural gas, propane, energy marketing and other. Other is composed of appliance services, information system services and certain corporate eliminations.

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

	Natural Gas	Propane	Energy Marketing	Other	Total
For the Three Months Ended December 31, 2003					
Operating revenues	25,232,488	4,367,615	4,493,413	207,256	34,300,772
Operating margin	6,599,995	1,982,596	56,426	118,556	8,757,573
Income before income taxes	1,951,938	473,747	45,419	116,483	2,587,587
As of December 31, 2003:					
Total assets	93,227,592	14,208,989	3,648,444	433,630	111,518,655
Gross additions to long-lived assets	1,262,905	449,334		127	1,712,366
For the Three Months Ended December 31, 2002					
Operating revenues	21,093,267	4,449,776	2,716,562	196,522	28,456,127
Operating margin	6,161,774	2,345,253	72,931	85,839	8,665,797
Income before income taxes	1,582,514	775,282	63,033	84,670	2,505,499
As of December 31, 2002:					
Total assets	81,776,129	15,645,906	1,579,741	622,832	99,624,608
Gross additions to long-lived assets	1,100,466	791,383			1,891,849

7. The Company has a Key Employee Stock Option Plan (the "Plan"), which is intended to provide the Company's executive officers with long-term (ten-year) incentives and rewards tied to the price of the Company's common stock. The Company applies the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for this Plan. No stock-based employee compensation expense is reflected in net income as all options granted under the Plan had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, to the options granted under the Plan.

	3 Months Ended	
	December 31	
	2003	2002
Net income, as reported	\$ 1,599,403	\$ 1,538,137
Deduct: Total stock-based employee compensation expense determined under fair value method for all awards, net of tax		(3,291)
Pro forma net income	\$ 1,599,403	\$ 1,534,846
Earnings per share:		
Basic - as reported	\$ 0.80	\$ 0.78
Basic - pro forma	\$ 0.80	\$ 0.78
Diluted - as reported	\$ 0.79	\$ 0.78
Diluted - pro forma	\$ 0.79	\$ 0.78

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

Weighted Average Shares	2,010,247	1,967,635
Diluted Average Shares	2,021,897	1,968,735

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

8. The Company has both a defined benefit pension plan (the pension plan) and a post retirement benefits plan (the post retirement 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 post retirement plan provides certain healthcare and supplemental life insurance benefits to retired employees who meet specific age and service requirements. Net pension plan and post retirement plan expense recorded by the Company is detailed as follows:

	Three Months Ended December 31	
	2003	2002
Components of net periodic pension cost:		
Service cost	\$ 95,397	\$ 75,217
Interest cost	153,347	150,569
Expected return on plan assets	(127,100)	(127,535)
Amortization of unrecognized transition obligation		283
Recognized (gain) loss	30,888	5,856
Net periodic pension cost	\$ 152,532	\$ 104,390

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

	Three Months Ended December 31	
	2003	2002
Components of net periodic postretirement benefit cost:		
Service cost	\$ 50,414	\$ 42,877
Interest cost	136,776	138,855
Expected return on plan assets	(33,630)	(30,410)
Amortization of unrecognized transition obligation	59,325	59,325
Recognized (gain) loss	28,225	14,977
Net periodic benefit cost	\$ 241,110	\$ 225,624

Total expected employer funding contributions during the fiscal year ended September 30, 2004 are \$700,000 for the pension plan and \$750,000 for the post retirement plan.

9. Both Roanoke Gas Company and Bluefield Gas Company, subsidiaries of RGC Resources, Inc., operated manufactured gas plants (MGPs) as a source of fuel for lighting and heating until the early 1950 s. A by-product of operating MGPs was coal tar, and the potential exists for on-site tar waste contaminants at the former plant sites. The extent of contaminants at these sites, if any, is unknown at this time. An analysis at the Bluefield Gas Company site indicates some soil contamination. The Company, with concurrence of legal counsel, does not believe any events have occurred requiring regulatory reporting. Further, the Company has not received any notices of violation or liabilities associated with environmental regulations related to the MGP sites and is not aware of any off-site contamination or pollution as a result of prior operations. Therefore, the Company has no plans for subsurface remediation at the MGP sites. Should the Company eventually be required to remediate either site, the Company 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. A stipulated rate case agreement between the Company and the West Virginia Public Service Commission recognized the Company s right to defer MGP clean-up costs, should any be incurred, and to seek rate relief for such costs. If the Company eventually incurs costs associated with a required clean-up of either MGP site, the Company anticipates recording a regulatory asset for such clean-up costs to be recovered in future rates. Based on anticipated regulatory actions and current practices, management believes that any costs incurred related to this matter will not have a material effect on the Company s financial condition or results of operations.
10. The Company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, on October 1, 2002. SFAS No. 143 requires the reporting at fair value of a legal obligation associated with the retirement of tangible long-lived assets that result from acquisition,

RGC RESOURCES, INC. AND SUBSIDIARIES

CONDENSED NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNAUDITED

construction or development. Management has determined that the Company has no material legal obligations for the retirement of its assets. However, the Company provides a provision, as part of its depreciation expense, for the ultimate cost of asset retirements and removal. Removal costs are not a legal obligation as defined by SFAS No. 143 but rather the result of cost-based regulation and therefore accounted for under the provisions of SFAS No. 71, *Accounting for the Effects of Certain Types of Regulation*. Upon adoption of SFAS No. 143, the Company classified removal costs that do not have an associated legal retirement obligation as a regulatory liability, in accordance with regulatory treatment.

In accordance with guidance that became available subsequent to the Company's filing of its Quarterly Report on Form 10-Q on February 13, 2004, the Company has reclassified the estimated costs of removal of utility plant previously recognized in accumulated depreciation as a separate liability for the periods ended December 31, 2003 and September 30, 2003. As a result of the adoption of SFAS No. 143, these liabilities are reported as regulatory liabilities.

The following table shows how consolidated utility plant, net and deferred credits and other liabilities on the balance sheet have been revised.

	December 31, 2003	September 30, 2003
Utility plant, net - as reported	\$ 60,017,296	\$ 59,790,899
Utility plant, net reclassification	5,706,666	5,449,702
Utility plant, net - as revised	<u>\$ 65,723,962</u>	<u>\$ 65,240,601</u>
Total deferred credits and other Liabilities - as reported	\$ 5,842,404	\$ 5,724,329
Total deferred credits and other Liabilities reclassification	5,706,666	5,449,702
Total deferred credits and other Liabilities - as revised	<u>\$ 11,549,070</u>	<u>\$ 11,174,031</u>

The Company also adopted SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, on October 1, 2002. The adoption of the standard had no material impact on the Company's financial position or results of operations.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

General

RGC Resources, Inc. is an energy services company primarily engaged in the regulated sale and distribution of natural gas to approximately 59,300 residential, commercial and industrial customers in Roanoke, Virginia and Bluefield, Virginia and West Virginia and the surrounding areas through its Roanoke Gas Company and Bluefield Gas Company subsidiaries. Natural gas service is provided at rates and for the terms and conditions set forth by the State Corporation Commission (SCC) in Virginia and the Public Service Commission (PSC) in West Virginia.

RGC Resources, Inc. also provides unregulated energy products through Diversified Energy Company, which operates as Highland Propane Company and Highland Energy Company. Highland Propane sells and distributes propane to approximately 18,500 customers in western Virginia and southern West Virginia. Highland Energy brokers natural gas to several industrial transportation customers of Roanoke Gas Company and Bluefield Gas Company. Propane sales have become a more significant portion of the consolidated operation with an annual growth rate that far exceeds the growth in natural gas customers.

RGC Resources, Inc. also provides information system services to software providers in the utility industry through RGC Ventures, Inc. of Virginia, which operates as Application Resources.

Management views warm winter weather; energy conservation, fuel switching and bad debts due to high energy prices; and competition from alternative fuels each as factors that could have a significant impact on the Company's earnings.

For the quarter ended December 31, 2003, rising energy prices continued to be a primary concern for management as higher prices could result in customer retention issues, higher customer account delinquencies and reduced usage through conservation and fuel switching. In addition, the warmer weather has led to reduced deliveries of both natural gas and propane as compared to the same period last year.

Results of Operations

Consolidated net income for the three-month period ended December 31, 2003 was \$1,599,403 compared to \$1,538,137 for the same period last year.

Total operating revenues for the three months ended December 31, 2003 increased by \$5,844,645, or 21 percent, compared to the same period last year, primarily due to increasing gas costs and implementation of base rate increases. The average cost of natural gas and propane increased by 35 percent and 24 percent, respectively. Sales volumes declined for both the natural gas and propane activity with total regulated natural gas deliveries decreasing by more than 3 percent, while propane deliveries declined by nearly 9 percent. The total number of heating-degree days (an industry measure by which the average daily temperature falls below 65

RGC RESOURCES, INC. AND SUBSIDIARIES

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

degrees Fahrenheit) declined by 11 percent from the same period last year. Energy marketing volumes, on the other hand, increased by 27 percent due in part to the recovering economy and to the return of a few customers who had purchased natural gas from other sources. Other revenues increased by 5 percent due to a higher level of service billing work.

	Quarter Ended 12/31/03	Quarter Ended 12/31/02	Increase/ (Decrease)	Percentage
Operating Revenues				
Gas Utilities	25,232,488	21,093,267	4,139,221	20%
Propane Operations	4,367,615	4,449,776	(82,161)	-2%
Energy Marketing	4,493,413	2,716,562	1,776,851	65%
Other	207,256	196,522	10,734	5%
Total Operating Revenues	34,300,772	28,456,127	5,844,645	21%

Total operating margin increased by \$91,776, or 1 percent, for the quarter ended December 31, 2003 over the same period last year. Regulated natural gas margins increased by \$438,221, or 7 percent, even though total delivered volume (tariff and transporting) decreased by 126,025 dekatherms, or 3 percent. Tariff sales, primarily consisting of residential and commercial usage, declined 8 percent due to the 11 percent decline in heating degree-days from the same period last year. Transporting volumes, which correlate more with economic conditions rather than weather, provided a strong increase of 14 percent, reflecting improvement in the economy and increased industrial production. The Company was able to realize an increase in the regulated natural gas margins due to a non gas cost rate increase effective October 16, 2003 for Roanoke Gas Company and the implementation of a new billing rate structure in April 2003 which allowed Roanoke Gas Company to recover the specific costs associated with financing its investment in gas inventory and prepaid gas service. Both Roanoke Gas Company and Bluefield Gas Company placed increased rates into effect during the quarter ended December 31, 2003. Roanoke Gas Company's rates were placed into effect subject to refund pending a final order from the Virginia SCC. Bluefield Gas Company's rates were placed into effect in accordance with a final rate order issued by the West Virginia PSC. As a result of the rate increases, the Company realized approximately \$196,000 in additional customer base charges, which is a flat monthly fee billed to each natural gas customer, and approximately \$270,000 associated with increase in the volumetric price of natural gas. More information regarding the rate increase may be found under the Regulatory Affairs section below.

Furthermore, prior to April 2003, billing rates for Roanoke Gas Company customers included a component to recover the financing costs of natural gas inventory and prepaid gas service based upon historical inventory levels and historical interest rates and the allowed rate of return on equity. Therefore, when costs increased, the Company had to absorb the higher financing costs without rate relief. The new rate structure provides for a different recovery mechanism, which

RGC RESOURCES, INC. AND SUBSIDIARIES

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

also results in different timing of revenue recognition. The Company is able to recover higher financing costs related to increased inventory and prepaid gas balances arising from higher gas costs; conversely, the Company will pass along savings to customers if financing costs decrease due to lower inventory and prepaid gas balances resulting from reductions in gas costs. The new rate structure resulted in the recognition of additional revenue related to the recovery of these financing costs during fiscal 2003. Under the new rate structure, the revenue associated with the calculated carrying cost is accrued based upon gas inventory and prepaid gas levels, primarily during the summer and fall as gas is being injected into storage. Under the previous rate structure, the majority of the revenue was recorded in winter and early spring when customers were billed for higher levels of gas consumption. As a result of the new rate structure, the Company recorded approximately \$170,000 in additional revenues and margin related to the carrying costs during the current quarter. Of the \$170,000, approximately \$61,000 was associated with recovery of financing costs on higher cost inventory and prepaid gas balances, while the remaining balance represents a timing issue on revenue recognition. Consequently, for comparative purposes, revenues will be lower in the second quarter of fiscal 2004 when inventory levels and the related carrying cost accruals are lower. If the impact of any weather differential between periods is ignored, management anticipates most of the reduction in revenues in the second quarter will be offset by the rate increase implemented in October 2003.

	Quarter Ended 12/31/03	Quarter Ended 12/31/02	Increase/ (Decrease)	Percentage
Operating Margin				
Gas Utilities	6,599,995	6,161,774	438,221	7%
Propane Operations	1,982,596	2,345,253	(362,657)	-15%
Energy Marketing	56,426	72,931	(16,505)	-23%
Other	118,556	85,839	32,717	38%
Total Operating Margin	8,757,573	8,665,797	91,776	1%

Propane margins decreased by \$362,657, or 15 percent, on a 287,223, or 9 percent, gallon decline in deliveries from the same period last year. The decrease in volumes is attributable to the warmer weather. In addition to the margin impact from weather, propane operations realized only a \$9,702 derivative gain for the quarter ended December 31, 2003 compared to a realized derivative gain of \$120,839 for the same period last year. Rapidly increasing propane prices and competition also contributed to the decline in margin due to price resistance from customers. The energy marketing division margin decreased by \$16,505 even though total sales volume increased by 157,252 dekatherms, or 27 percent. The increase in sales volumes was associated with improving economic conditions and the return of a few customers from other marketers. The decline in margin was expected as the current unit margins for the energy marketing operations reflect current and long-term market expectations due to higher energy prices and

RGC RESOURCES, INC. AND SUBSIDIARIES

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

competition. Other margins increased by \$32,717, or 38 percent, due to increased level of billable service work.

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

	<u>Quarter Ended 12/31/03</u>	<u>Quarter Ended 12/31/02</u>	<u>Increase/ (Decrease)</u>	<u>Percentage</u>
Delivered Volumes				
Regulated Natural Gas (DTH)				
Tariff Sales	2,727,113	2,960,932	(233,819)	-8%
Transportation	860,201	752,407	107,794	14%
Total	3,587,314	3,713,339	(126,025)	-3%
Propane (Gallons)	3,062,263	3,349,486	(287,223)	-9%
Highland Energy (DTH)	741,117	583,865	157,252	27%
Heating Degree Days (Unofficial)	1,487	1,674	(187)	-11%

Operations expenses increased by \$20,947, or less than one percent, for the three-month period ended December 31, 2003 compared to the same period last year. Increase in bad debt expense of \$39,263, due to higher revenues, and increase in corporate insurance premiums of \$39,000 were nearly offset by modest declines in operations labor and certain other expenses. Maintenance expenses were comparable to the same period last year, decreasing by \$6,835, or 2 percent. The Company's primary maintenance focus during the quarter was pipeline maintenance and leak repair.

General taxes increased \$11,387, or 2 percent, for the three-month period ended December 31, 2003 compared to the same period last year primarily due to increased business and occupation (B&O) taxes, a revenue sensitive tax, related to higher revenues in the West Virginia natural gas operations.

Interest charges decreased by \$9,610, or nearly 2 percent, even though the Company's average total debt position during the current quarter increased by 12 percent over the same period last year. The increase in average total debt for the quarter was attributable to capital expenditures and the funding of higher accounts receivable balances and prepaid gas service related to higher energy prices. The overall average interest rate on total debt decreased from 5.09 percent to 4.48 percent. The decline in the overall average interest rate was attributed to the 22 percent decline

RGC RESOURCES, INC. AND SUBSIDIARIES

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

in the Company's average short-term line-of-credit rates as a result of the Federal Reserve's continuing reductions in interest rates and lower interest rates on the variable rate portion of the Company's long-term debt.

Income tax expense increased by \$20,822, which corresponds to the increase in pre-tax income for the quarter.

The three-month earnings presented herein should not be considered as reflective of the Company's consolidated financial results for the fiscal year ending September 30, 2004. The total revenues and margins realized during the first three months reflect higher billings due to the weather sensitive nature of the gas business. Any improvement or decline in earnings depends primarily on weather conditions during the remaining winter months and the level of operating and maintenance costs during the remainder of the year.

Critical Accounting Policies

The consolidated financial statements of RGC Resources, Inc. 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 estimates and judgments 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 could differ from the estimates, which would affect the related amounts reported in the Company's financial statements. Although, estimates and judgments are applied in arriving at many of the reported amounts in the financial statements including provisions for employee medical insurance, projected useful lives of capital assets and goodwill valuation, the following items may involve a greater degree of judgment.

Revenue recognition The Company bills natural gas customers on a monthly cycle basis; however, 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 not yet billed during the accounting period. Determination of unbilled revenue relies on the use of estimates, current and historical data.

Bad debt reserves The Company evaluates the collectibility of its accounts receivable balances based upon a variety of factors including loss history, level of delinquent account balances and general economic climate.

Retirement plans The Company offers a defined benefit pension plan and a post-retirement medical plan to eligible employees. The expenses and liabilities associated with these plans are determined through actuarial means requiring the estimation of certain assumptions and factors. In regard to the pension plan, these factors include assumptions regarding discount rate, expected long-term rate of return on plan assets, compensation increases and life expectancies, among

RGC RESOURCES, INC. AND SUBSIDIARIES

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

others. Similarly, the post-retirement medical plan also requires the estimation of many of the same factors as the pension plan in addition to assumptions regarding 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 to name a few. 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.

Derivatives As discussed in the Item 3 Qualitative and Quantitative Disclosures about Market Risk section below, the Company hedges certain risks incurred in the normal operation of business through the use of derivative instruments. The Company applies the requirements of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, which requires the recognition of all derivative instruments as assets or liabilities in the Company's balance sheet at fair value. Fair value is based upon quoted futures prices for the commodities of propane and natural gas. 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 futures value used in determining fair value in prior financial statements.

Regulatory accounting The Company's regulated operations follow the accounting and reporting requirements of Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*. 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 results, 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 the amounts previously collected from customers and for current collection in rates of costs that are expected to be incurred in the future (regulatory liabilities).

Asset Management

Effective November 1, 2001, Roanoke Gas Company and Bluefield Gas Company (the Companies) entered into a contract with a third party (counter-party) to provide future gas supply needs. The counter-party has also assumed the management and financial obligation of the Company's firm transportation and storage agreements. In connection with the agreement, the Companies exchanged gas in storage at November 1, 2001 for the right to receive an equal amount of gas in the future as provided by the agreement. As a result of this arrangement, natural gas inventories on the balance sheet are replaced with a new classification called prepaid gas service. This contract expires on October 31, 2004. Management is in the preliminary stages of soliciting bids for the replacement of this contract.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

Under the asset management agreement, the Companies no longer have title or ownership of the physical asset; instead, the Companies make monthly payments for the right to receive gas in the future. Therefore, a greater risk exists regarding the ultimate realization of the prepayment depending on the ongoing viability of the counter-party. The Companies have attempted to mitigate the risks in the event of a failure to perform or bankruptcy on the part of the counter-party by requiring certain contractual restrictions on inventory and other provisions. As of December 31, 2003, the total value of prepaid gas service on the Balance Sheet was \$10,995,800.

Energy Costs

Natural gas and propane commodity prices have been at unusually high levels over the last several quarters, and the Company entered the current heating season with its highest embedded prepaid and inventory gas costs. Management perceives a significant reason for high energy prices is the accumulated impact of years of inconsistent regulatory policy and the continued failure of Congress and the President to pass meaningful national energy use and resource development legislation. In the absence of such legislation, accessible natural gas reserves will continue to decline as well as increased demand for natural gas from electric generation facilities will keep natural gas prices at elevated levels. In recognition of these issues, management believes that it has planned for adequate supplies to fulfill customer needs for the current winter. In addition, management believes that it has hedged against significant further escalation of prices for the current heating season based on normal weather volume projections. The Company uses various hedging mechanisms including summer storage injections, financial instruments and fixed price contracts to limit weather driven volatility in energy prices.

Natural gas costs are fully recoverable under the present regulatory Purchased Gas Adjustment (PGA) mechanisms, and increases and decreases in the cost of gas are passed through to the Company's customers. The unregulated propane and energy marketing operations are able to more rapidly adjust pricing structures to compensate for increasing costs. However, due to the competitive nature of these unregulated markets, there can be no assurance that the Company can adjust its pricing to sufficiently recover cost increases without negatively affecting sales and competitive position.

Although rising energy prices are recoverable through the PGA mechanism for the regulated operations, high energy prices may have a negative impact on earnings through increases in bad debt expense and higher interest costs because the delay in recovering higher gas costs requires borrowing to temporarily fund receivables from customers, LNG (liquefied natural gas) and prepaid gas service levels. As discussed in the results of operations, the new rate structure implemented in April 2003 will provide the Company a level of protection against the impact that rising energy prices may have on bad debts and carrying costs on LNG storage and prepaid gas service by allowing for more timely recovery of these costs. However, this new rate structure will not protect the Company from increased rate of bad debts or increases in interest rates.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

Regulatory Affairs

During the quarter ended December 31, 2003, Roanoke Gas Company placed into effect new base rates effective for service rendered on and after October 16, 2003 to provide for approximately \$1,800,000 in additional annual revenues. These higher rates are subject to refund pending a final order by the Virginia SCC. The Company has recorded an estimated reserve that management believes may be refundable to customers based upon its current assessment of its rate increase request. The amount of the final rate award may be more or less than the amount reflected in the financial statements and will not be known until the final order is received.

In addition, Bluefield Gas Company placed into effect new base rates effective for service rendered on and after December 4, 2003. The case was settled with a final order from the West Virginia PSC approving an increase in annual rates of \$112,000 in addition to a provision to recover the deferred expense associated with the restoration of service to customers resulting from the gas line rupture in January 2003. A \$0.05 per billing unit will be included in Bluefield Gas customers' billings until the deferred expenses are fully recovered. Bluefield Gas Company filed a new application for increased rates in January 2004.

Environmental Issues

Both Roanoke Gas Company and Bluefield Gas Company, subsidiaries of RGC Resources, Inc., 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. The extent of contaminants at these sites, if any, is unknown at this time. An analysis at the Bluefield Gas Company site indicates some soil contamination. The Company, with concurrence of legal counsel, does not believe any events have occurred requiring regulatory reporting. Further, the Company has not received any notices of violation or liabilities associated with environmental regulations related to the MGP sites and is not aware of any off-site contamination or pollution as a result of prior operations. Therefore, the Company has no plans for subsurface remediation at the MGP sites. Should the Company eventually be required to remediate either site, the Company 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. A stipulated rate case agreement between the Company and the West Virginia Public Service Commission recognized the Company's right to defer MGP clean-up costs, should any be incurred, and to seek rate relief for such costs. If the Company eventually incurs costs associated with a required clean-up of either MGP site, the Company anticipates recording a regulatory asset for such clean-up costs to be recovered in future rates. Based on anticipated regulatory actions and current practices, management believes that any costs incurred related to this matter will not have a material effect on the Company's financial condition or results of operations.

RGC RESOURCES, INC. AND SUBSIDIARIES

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

Capital Resources and Liquidity

The Company's primary capital needs are for the funding of its continuing construction program and the seasonal funding of its accounts receivable, LNG storage and gas prepayment requirements under the asset management contract. The Company's construction program is composed of a combination of replacing old bare steel and cast iron pipe with new plastic or coated steel pipe and expansion of natural gas and propane service to new customers. Total capital expenditures were \$1,712,366 and \$1,891,849 for the three-month periods ended December 31, 2003 and 2002, respectively. The Company's total capital budget for the current year is approximately \$7,200,000. It is anticipated that these costs and future capital expenditures will be funded with the combination of operating cash flow, sale of Company equity securities through the Dividend Reinvestment and Stock Purchase Plan and issuance of debt.

The Company also funds seasonal levels of gas prepayments, LNG storage and accounts receivables. From April through October, the Company prepays its asset manager for the right to receive additional natural gas in the colder winter months. This gas prepayment replaces the old underground natural gas storage that was used prior to the asset management contract. Furthermore, a majority of the Company's sales and billings occur during the winter months. As a result, accounts receivable balances increase during these months and decrease during the summer months. Total accounts receivable balances were \$18,902,360 and \$15,338,184 at December 31, 2003 and 2002, respectively.

The level of borrowing under the Company's line of credit agreements can fluctuate significantly due to the time of the year, changes in the wholesale price of energy and weather outside the normal temperature ranges. As the wholesale price of natural gas increases, short-term debt generally increases because the payment to the Company's energy suppliers is due before the Company can recover its costs through the monthly billing of its customers. In addition, colder weather requires the Company to purchase greater volumes of natural gas, the cost of which is recovered from customers on a delayed basis.

At December 31, 2003, the Company had available lines of credit for its short-term borrowing needs totaling \$28,000,000, of which \$19,080,000 was outstanding. The terms of short-term borrowings are negotiable, with variable rates based upon 30 day Libor. These lines of credit expire March 31, 2004, unless extended. The Company anticipates being able to extend or replace the lines of credit upon expiration.

On October 1, 2003, Bluefield Gas Company executed a \$2,000,000 unsecured 26 month note to refinance a portion of its maturing long-term debt and a portion of its outstanding line-of-credit balance. The note has a variable interest rate based on 30-day LIBOR plus 113 basis point spread. The note maturity was structured to correspond with maturity periods of other debt instruments of RGC Resources, Inc. to allow for a more comprehensive debt offering in the future. Because the Company had both the intent and ability to execute the note at the end of its

RGC RESOURCES, INC. AND SUBSIDIARIES

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

fiscal year, the Company reclassified the \$2,000,000 from current maturities of long-term debt and lines-of-credit to long-term debt on its September 30, 2003 Balance Sheet.

At December 31, 2003, the Company's capitalization consisted of 46 percent in long-term debt and 54 percent in common equity.

Forward-Looking Statements

From time to time, 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. 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 the following: (i) failure to earn on a consistent basis an adequate return on invested capital; (ii) increasing expenses and labor costs and labor availability; (iii) price competition from alternative fuels; (iv) volatility in the price and availability of natural gas and propane; (v) uncertainty in the projected rate of growth of natural gas and propane requirements 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 and/or colder weather; (ix) developments in electricity and natural gas deregulation and associated industry restructuring; (x) variations in winter heating degree-days from normal; (xi) changes in environmental requirements and cost of compliance; (xii) impact of potential increased governmental oversight and compliance costs due to the Sarbanes-Oxley law; (xiii) cost and availability of property and liability insurance in the wake of terrorism concerns and corporate failures; (xiv) ability to raise debt or equity capital in the wake of recent corporate financial irregularities; (xv) impact of uncertainties in the Middle East; (xvi) failure of Congress to pass a comprehensive energy policy could serve to perpetuate high energy prices; and (xvii) new accounting standards issued by the Financial Accounting Standards Board, 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, project, forecast or similar words or future or conditional verbs such as will, would, should, 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. We assume no duty to update these statements should expectations change or actual results differ from current expectations.

RGC RESOURCES, INC. AND SUBSIDIARIES

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks associated with interest rates and commodity prices. Interest rate risk is related to the Company's outstanding long-term and short-term debt. Commodity price risk is experienced by the Company's regulated natural gas operations, propane operations and energy marketing business. The Company's risk management policy, as authorized by the Company's Board of Directors, allows management to enter into derivatives for the purpose of managing commodity and financial market risks of its business operations.

The Company is exposed to market risk related to changes in interest rates associated with its borrowing activities. At December 31, 2003, the Company had \$19,080,000 outstanding under its lines of credit, \$2,500,000 outstanding on an intermediate-term variable rate note for Highland Propane and \$2,000,000 outstanding on an intermediate-term variable rate note for Bluefield Gas. A hypothetical 100 basis point increase in market interest rates applicable to the Company's variable rate debt outstanding at December 31, 2003 would have resulted in an increase in quarterly interest expense of approximately \$59,000. The Company also has an \$8,000,000 intermediate term variable rate note that is currently being hedged by a fixed rate interest swap.

The Company manages the price risk associated with purchases of natural gas and propane by using a combination of fixed price contracts, prepaid gas service payments and derivative commodity instruments including futures, price caps, swaps and collars. As of December 31, 2003, the Company had entered into derivative price cap agreements for the purpose of hedging the price of propane gas. With respect to propane gas, a hypothetical 10 percent reduction in market price would result in a decrease in fair value for the Company's propane gas derivative contracts of approximately \$37,000.

As of December 31, 2003, the Company had entered into both derivative price caps and swap arrangements for the purpose of hedging the price of natural gas. Any cost incurred or benefit received from the derivative arrangement is recoverable or refunded through the regulated natural gas purchased gas adjustment (PGA) mechanism. Both the Virginia SCC and the West Virginia PSC currently allow for full recovery of prudent costs associated with natural gas purchases, and any additional costs or benefits associated with the settlement of the derivative contract will be passed through to customers when realized. A hypothetical 10% reduction in the market price of natural gas would result in a decrease in fair value of approximately \$293,000 for the Company's natural gas derivative contracts.

ITEM 4 CONTROLS AND PROCEDURES

Based on their evaluation of the Company's disclosure controls and procedures (as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2003, the Company's Chief Executive Officer and principal financial officer have concluded that these disclosure controls and procedures are effective. There has been no change during the quarter ended December 31, 2003, in the Company's internal control over financial reporting or in other factors that has materially affected, or is reasonably likely to materially affect, this internal control over financial reporting.

Part II Other Information

ITEM 2 CHANGES IN SECURITIES.

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 vesting and 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 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-NMS 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 1993 (the Act) and will vest only 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 term on the Board or (ii) removal for cause. During the quarter ended December 31, 2003, the Company issued a total of 650.894 shares of restricted stock pursuant to the Restricted Stock Plan as follows:

<u>Investment Date</u>	<u>Price</u>	<u>Number of Shares</u>
10/1/2003	\$ 22.930	216.363
11/3/2003	\$ 22.920	216.457
12/1/2003	\$ 22.750	218.074

On October 1, 2003, November 3, 2003 and December 1, 2003, the Company issued a total of 202.054 shares of its common stock as bonuses to certain employees and management personnel as rewards for performance and length of service. The 202.054 shares were not issued in a transaction constituting a sale within the meaning of section 2(3) of the Act.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits

<u>Number</u>	<u>Description</u>
10 (m)(m)(m)	Loan agreement by and between Bank of America, N.A. and Bluefield Gas Company dated September 26, 2003.
10 (n)(n)(n)	Promissory note by and between Bank of America, N.A. and Bluefield Gas Company dated September 26, 2003.

Part II Other Information

- 10(o)(o)(o) Unconditional guaranty by and between RGC Resources, Inc. and Bank of America, N.A.
- 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

(b) Reports on Form 8-K

On December 22, 2003, the Company filed a current report on Form 8-K, dated December 22, 2003, furnishing under Item 12 thereof a press release announcing the financial results for the fiscal year ended September 30, 2003, including the applicable financial statements.

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.

Date: April 20, 2004

RGC Resources, Inc.

By: /s/ Howard T. Lyon

Howard T. Lyon

Vice-President, Treasurer and Controller

(Principal Financial Officer)

BANK OF AMERICA, N.A.

LOAN AGREEMENT

This Loan Agreement (the Agreement) dated as of September 26, 2003, by and between Bank of America, N.A., a national banking association (Lender) and the Borrower described below.

In consideration of the Loan or Loans described below and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, Lender and Borrower agree as follows:

1. DEFINITIONS AND REFERENCE TERMS. In addition to any other terms defined herein, the following terms shall have the meaning set forth with respect thereto:

A. Borrower: Bluefield Gas Company, a West Virginia corporation

B. Borrower s Address:

519 Kimball Avenue

Roanoke, VA 24030

C. Hazardous Materials. Hazardous Materials include all materials defined as hazardous materials or substances under any local, state or federal environmental laws, rules or regulations, and petroleum, petroleum products, oil and asbestos.

D. Loan Documents. Loan Documents means this Loan Agreement and any and all promissory notes executed by Borrower in favor of Lender and all other documents, instruments, guarantees, certificates and agreements executed and/or delivered by Borrower, any guarantor or third party in connection with any Loan.

E. Accounting Terms. All accounting terms not specifically defined or specified herein shall have the meanings generally attributed to such terms under generally accepted accounting principles (GAAP), as in effect from time to time, consistently applied, with respect to the financial statements referenced in Section 3.H. hereof.

2. LOANS.

A. **Loan(s).** Lender hereby agrees to make (or has made) one or more loans (each a **Loan** and collectively the **Loans**) to Borrower in the aggregate principal face amount of \$2,000,000. The obligation to repay the Loan(s) is evidenced by promissory note(s) dated September 26, 2003 (each promissory note, together all renewals, extensions or rearrangements thereof being hereafter individually and collectively, as the case may be, referred to as the **Note**). All terms governing the repayment, interest rate and maturity date of the Loans shall be as set forth in the respective Note.

3. REPRESENTATIONS AND WARRANTIES. Borrower hereby represents and warrants to Lender as follows:

A. Good Standing. Borrower is a Corporation, duly organized, validly existing and in good standing under the laws of the Commonwealth of Virginia and has the power and authority to own its property and to carry on its business in each jurisdiction in which Borrower does business.

B. Authority and Compliance. Borrower has full power and authority to execute and deliver the Loan Documents and to incur and perform the obligations provided for therein, all of which have been duly authorized by all proper and necessary action of the appropriate governing body of Borrower. No consent or approval of any public authority or other third party is required as a condition to the validity of any Loan Document, and Borrower is in compliance with all laws and regulatory requirements to which it is subject.

C. Binding Agreement. This Agreement and the other Loan Documents executed by Borrower constitute valid and legally binding obligations of Borrower, enforceable in accordance with their terms.

D. Litigation. There is no proceeding involving Borrower pending or, to the knowledge of Borrower, threatened before any court or governmental authority, agency or arbitration authority, except as disclosed to Lender in writing and acknowledged by Lender prior to the date of this Agreement.

E. No Conflicting Agreements. There is no charter, bylaw, stock provision, partnership agreement or other document pertaining to the organization, power or authority of Borrower and no provision of any existing agreement, mortgage, indenture or contract binding on Borrower or affecting its property, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the other Loan Documents.

F. Ownership of Assets. Borrower has good title to its assets, and its assets are free and clear of liens, except those granted to Lender and as disclosed to Lender in writing prior to the date of this Agreement.

G. Taxes. All taxes and assessments due and payable by Borrower have been paid or are being contested in good faith by appropriate proceedings and the Borrower has filed all tax returns which it is required to file.

H. Financial Statements. The financial statements of Borrower heretofore delivered to Lender have been prepared in accordance with GAAP applied on a consistent basis throughout the period involved and fairly present Borrower's financial condition as of the date or dates thereof, and there has been no material adverse change in Borrower's financial condition or operations since April 30, 2003. All factual information furnished by Borrower to Lender in connection with this Agreement and the other Loan Documents is and will be accurate and complete on the date as of which such information is delivered to Lender and is not and will not be incomplete by the omission of any material fact necessary to make such information not misleading.

I. Environmental. The conduct of Borrower's business operations and the condition of Borrower's property does not and will not violate any federal laws, rules or ordinances for environmental protection, regulations of the Environmental Protection Agency, any applicable local or state law, rule, regulation or rule of common law or any judicial interpretation thereof relating primarily to the environment or Hazardous Materials.

J. Continuation of Representations and Warranties. All representations and warranties made under this Agreement shall be deemed to be made at and as of the date hereof and at and as of the date of any advance under any Loan.

4. AFFIRMATIVE COVENANTS. Until full payment and performance of all obligations of Borrower under the Loan Documents, Borrower will, unless Lender consents otherwise in writing (and without limiting any requirement of any other Loan Document):

A. Financial Condition. Maintain Borrower's financial condition as follows, determined in accordance with GAAP applied on a consistent basis throughout the period involved except to the extent modified by the definitions shown on the attached Exhibit A:

1. Maximum Long Term Debt to Total Capitalization. A ratio of Consolidated Long Term Debt plus current maturities of Consolidated Long Term Debt to Consolidated Total Capitalization of no greater than .65 to 1.0.

2. Minimum Retained Earnings. Retained earnings of at least \$1,400,000.

B. Financial Statements and Other Information. Maintain a system of accounting satisfactory to Lender and in accordance with GAAP applied on a consistent basis throughout the period involved, permit Lender's officers or authorized representatives to visit and inspect Borrower's books of account and other records at such reasonable times and as often as Lender may desire, and, if a default under the Loan Documents has occurred, pay the reasonable fees and disbursements of any accountants or other agents of Lender selected by Lender for the foregoing purposes. Unless written notice of another location is given to Lender, Borrower's books and records will be located at Borrower's chief executive office set forth above. All financial statements called for below shall be prepared in form and content acceptable to Lender and by independent certified public accountants acceptable to Lender.

In addition, Borrower shall provide (or cause to be provided) the following financial information and statements in form and content acceptable to Lender, and such additional information as requested by Lender from time to time:

1. Within 120 days of Borrower's fiscal year end, Borrower's annual financial statements. These financial statements must be audited by Borrower's current accounting firm of Deloitte & Touche or another Certified Public Accountant acceptable to Lender (which acceptance shall not be unreasonably delayed or withheld). The statements shall be prepared on a consolidated and consolidating basis.

2. Within 46 days of the period's end (including the last period in each fiscal year), Borrower's quarterly financial statement, certified and dated by an authorized financial officer of Borrower. These financial statements may be Borrower prepared. The statements shall be prepared on a consolidated and consolidating basis.

3. Promptly, upon sending or receipt, copies of any management letters and correspondence relating to management letters, sent or received by Borrower to or from Borrower's auditor.

4. Within the period(s) provided in (a) and (b) above, a compliance certificate of Borrower signed by an authorized financial officer of Borrower setting forth (i) the information and computations (in sufficient detail) to establish that Borrower is in compliance with all financial covenants at the end of the period covered by the financial statements then being furnished and (ii) whether there existed as of the date of such financial statements and whether there exists as of the date of the certificate, any default under this Agreement and, if any such default exists, specifying the nature thereof and the action Borrower is taking and proposes to take with respect thereto.

C. Insurance. Maintain insurance with responsible insurance companies on such of its properties, in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, specifically to include fire and extended coverage insurance covering all assets, workers' compensation insurance and liability insurance, all to be with such companies and in such amounts as are satisfactory to Lender and providing for at least 30 days prior notice to Lender of any cancellation thereof. Satisfactory evidence of such insurance will be supplied to Lender prior to funding under the Loan(s) and prior to each policy renewal.

D. Existence and Compliance. Maintain its existence, good standing and qualification to do business, where required and comply with all laws, regulations and governmental requirements including, without limitation, environmental laws applicable to it or to any of its property, business operations and transactions.

E. Adverse Conditions or Events. Promptly advise Lender in writing of (i) any condition, event or act which comes to its attention that would or might materially adversely affect Borrower's financial condition or operations or Lender's rights under the Loan Documents, (ii) any litigation filed by or against Borrower, (iii) any event that has occurred that would constitute an event of default under any Loan Documents and (iv) any uninsured or partially uninsured loss through fire, theft, liability or property damage in excess of an aggregate of \$250,000.

F. Taxes and Other Obligations. Pay all of its taxes, assessments and other obligations, including, but not limited to taxes, costs or other expenses arising out of this transaction, as the same become due and payable, except to the extent the same are being contested in good faith by appropriate proceedings in a diligent manner.

G. Maintenance. Maintain all of its tangible property in good condition and repair and make all necessary replacements thereof, and preserve and maintain all licenses, trademarks, privileges, permits, franchises, certificates and the like necessary for the operation of its business.

H. Environmental Matters. Immediately advise Lender in writing of (i) any and all enforcement, cleanup, remedial, removal, or other governmental or regulatory actions instituted, completed or threatened pursuant to any applicable federal, state, or local laws, ordinances or regulations relating to any Hazardous Materials affecting Borrower's business operations; and (ii) all claims made or threatened by any third party against Borrower relating to damages, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials. Borrower shall immediately notify Lender of any remedial action taken by Borrower with respect to Borrower's business operations. Borrower will not use or permit any other party to use any Hazardous Materials at any of Borrower's places of business or at any other property owned by Borrower except such materials as are incidental to Borrower's normal course of business, maintenance and repairs and which are handled in compliance with all applicable environmental laws. Borrower agrees to permit Lender, its agents, contractors and employees to enter and inspect any of Borrower's places of business or any other property of Borrower at any reasonable times upon three (3) days prior notice for the purposes of conducting an environmental investigation and audit (including taking physical samples) to insure that Borrower is complying with this covenant and Borrower shall reimburse Lender on demand for the costs of any such environmental investigation and audit. Borrower shall provide Lender, its agents, contractors, employees and representatives with access to and copies of any and all data and documents relating to or dealing with any Hazardous Materials used, generated, manufactured, stored or disposed of by Borrower's business operations within five (5) days of the request therefore.

I. Auto Debit. Borrower has elected to authorize Lender to effect payment of sums due under the Note by means of debiting Borrower's account our bank account # maintained at Wachovia Bank. Borrower will sign the authorization form attached as Exhibit B. This authorization shall not affect the obligation of Borrower to pay such sums when due, without notice, if there are insufficient funds in such account to make such payment in full on the due date thereof, or if Lender fails to debit the account.

5. NEGATIVE COVENANTS. Until full payment and performance of all obligations of Borrower under the Loan Documents, Borrower will not, without the prior written consent of Lender (and without limiting any requirement of any other Loan Documents):

A. Transfer of Assets. Sell, lease, assign or otherwise dispose of or transfer any assets, except in the normal course of its business.

B. Not to Suspend Business. Voluntarily suspend its business.

C. Borrowings. Create, incur, assume or become liable in any manner for any indebtedness (for borrowed money, deferred payment for the purchase of assets, lease payments, as surety or guarantor for the debt for another, or otherwise) in excess of \$2,000,000 in the aggregate, other than to Lender, except for normal trade debts incurred in the ordinary course of Borrower's business, and except for existing indebtedness disclosed to Lender in writing and acknowledged by Lender prior to the date of this Agreement.

D. Character of Business. Change the general character of business as conducted at the date hereof, or engage in any type of business not reasonably related to its business as presently conducted.

6. DEFAULT. Borrower shall be in default under this Agreement and under each of the other Loan Documents if it shall default in the payment of any amounts due and owing under the Loan or should it fail to timely and properly observe, keep or perform any term, covenant, agreement or condition in any Loan Document or in any other loan agreement, promissory note, security agreement, deed of trust, deed to secure debt, mortgage, assignment or other contract securing or evidencing payment of any indebtedness of Borrower to Lender or any affiliate or subsidiary of Lender of America Corporation.

7. REMEDIES UPON DEFAULT. If an event of default shall occur, Lender shall have all rights, powers and remedies available under each of the Loan Documents as well as all rights and remedies available at law or in equity.

8. NOTICES. All notices, requests or demands which any party is required or may desire to give to any other party under any provision of this Agreement must be in writing delivered to the other party at the following address:

Borrower:

Bluefield Gas Company
519 Kimball Avenue
Roanoke, VA 24030
Fax. No.540-777-2636

Lender:

Bank of America, N.A.
302 South Jefferson Street
Roanoke, VA 24011-2010
Fax No. 540-265-3187

or to such other address as any party may designate by written notice to the other party. Each such notice, request and demand shall be deemed given or made as follows:

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

A. If sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid;

B. If sent by any other means, upon delivery.

9. COSTS, EXPENSES AND ATTORNEYS FEES. Borrower shall pay to Lender immediately upon demand the full amount of all costs and expenses, including reasonable attorneys fees incurred by Lender in connection with (a) negotiation and preparation of this Agreement and each

of the Loan Documents, and (b) all other costs and attorneys' fees incurred by Lender for which Borrower is obligated to reimburse Lender in accordance with the terms of the Loan Documents.

10. MISCELLANEOUS. Borrower and Lender further covenant and agree as follows, without limiting any requirement of any other Loan Document:

A. Cumulative Rights and No Waiver. Each and every right granted to Lender under any Loan Document, or allowed it by law or equity shall be cumulative of each other and may be exercised in addition to any and all other rights of Lender, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. Applicable Law. This Loan Agreement and the rights and obligations of the parties hereunder shall be governed by and interpreted in accordance with the laws of Virginia and applicable United States federal law.

C. Amendment. No modification, consent, amendment or waiver of any provision of this Loan Agreement, nor consent to any departure by Borrower therefrom, shall be effective unless the same shall be in writing and signed by an officer of Lender, and then shall be effective only in the specified instance and for the purpose for which given. This Loan Agreement is binding upon Borrower, its successors and assigns, and inures to the benefit of Lender, its successors and assigns; however, no assignment or other transfer of Borrower's rights or obligations hereunder shall be made or be effective without Lender's prior written consent, nor shall it relieve Borrower of any obligations hereunder. There is no third party beneficiary of this Loan Agreement.

D. Documents. All documents, certificates and other items required under this Loan Agreement to be executed and/or delivered to Lender shall be in form and content satisfactory to Lender and its counsel.

E. Partial Invalidity. The unenforceability or invalidity of any provision of this Loan Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

F. Indemnification. Notwithstanding anything to the contrary contained in Section 10(G), Borrower shall indemnify, defend and hold Lender and its successors and assigns harmless from and against any and all claims, demands, suits, losses, damages, assessments, fines, penalties, costs or other expenses (including reasonable attorneys' fees and court costs) arising from or in any way related to any of the transactions contemplated hereby, including, but not limited to, actual or threatened damage to the environment, agency costs of investigation, personal injury or death, or property damage, due to a release or alleged release of Hazardous Materials, arising from Borrower's business operations, any other property owned by Borrower or in the surface or ground water arising

from Borrower's business operations, or gaseous emissions arising from Borrower's business operations or any other condition existing or arising from Borrower's business operations resulting from the use or existence of Hazardous Materials, whether such claim proves to be true or false. Borrower further agrees that its indemnity obligations shall include, but are not limited to, liability for damages resulting from the personal injury or death of an employee of the Borrower, regardless of whether the Borrower has paid the employee under the workers' compensation laws of any state or other similar federal or state legislation for the protection of employees. The term "property damage" as used in this paragraph includes, but is not limited to, damage to any real or personal property of Borrower, Lender, and of any third parties. Borrower's obligations under this paragraph shall survive the repayment of the Loan and any deed in lieu of foreclosure or foreclosure of any Deed to Secure Debt, Deed of Trust, Security Agreement or Mortgage securing the Loan.

G. Survivability. All covenants, agreements, representations and warranties made herein or in the other Loan Documents shall survive the making of the Loan and shall continue in full force and effect so long as the Loan is outstanding or the obligation of the Lender to make any advances under the Line shall not have expired.

11. ARBITRATION. Any claim or controversy ("Claim") between the parties, whether arising in contract or tort or by statute including, but not limited to, Claims resulting from or relating to this Agreement shall, upon the request of either party, be resolved by binding arbitration in accordance with the Federal Arbitration Act (Title 9, US Code). Arbitration proceedings will be conducted in accordance with the applicable rules for the arbitration of disputes of JAMS or any successor thereof. The arbitration shall be conducted in any U.S. state where real or tangible personal property collateral for the credit is located or if there is no such collateral, in Virginia. The arbitration hearing shall commence within 90 days of the demand for arbitration and close within 90 days of commencement, and any award, which may include legal fees, shall be issued (with a brief written statement of the reasons therefore) within 30 days of the close of hearing. Any dispute concerning whether a claim is arbitrable or barred by the statute of limitations shall be determined by the arbitrator. This arbitration provision is not intended to limit the right of any party to exercise self-help remedies, to seek and obtain interim or provisional relief of any kind or to initiate judicial or non-judicial foreclosure against any real or personal property collateral. By agreeing to binding arbitration, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Claim. Furthermore, if for any reason a Claim is not arbitrated, the parties irrevocably and voluntarily agree to waive any right to a trial by jury in respect of such Claim.

12. NO ORAL AGREEMENT. THIS WRITTEN LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed under seal by their duly authorized representatives as of the date first above written.

LENDER: Bank of America, N.A.

By: /s/ Greg L. Richards (Seal)

Name: Greg L. Richards
Title: Senior Vice President

BORROWER: Bluefield Gas Company

By: /s/ Dale P. Moore (Seal)

Name: Dale P. Moore
Title: Vice President and Secretary

EXHIBIT A

Financial Covenant Definitions

Consolidated when used with respect to Long Term Debt means Long Term Debt of the Borrower and its Affiliates determined on a consolidated basis eliminating intercompany items.

Long Term Debt of any Person means (i) all Indebtedness of such Person for borrowed money or which has been incurred in connection with the acquisition of assets in each case having a final maturity of more than one year from the date of origin thereof (or which is renewable or extendible at the option of the obligor for a periods or periods more that one year from the date of origin), but excluding all payments in respect thereof that are required to be made within one year from the date of any determination of Long Term Debt, whether or not the obligation to make such payments shall constitute a current liability of the obligor under GAAP, (ii) obligations secured by any lien upon property or assets owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations, (iii) obligations created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, notwithstanding the fact that the rights and remedies of the seller, lender or lessor under such agreement in the event of default are limited to repossession or sale of property, (iv) all capitalized rentals of such Person, and (v) all guaranties by such Person of Long Term Debt of others.

Consolidated Total Capitalization means, as of the date of any determination thereof, the sum of (i) Consolidated Long Term Debt, plus (ii) current maturities of Consolidated Long Term Debt, plus (iii) consolidated stockholders' equity.

EXHIBIT B

(Auto Debit Authorization)

1.1 Beginning the date of this Authorization, Lender shall debit Borrower's designated deposit account with the Depository listed below (the Designated Account) in the amount of each payment of principal, interest and other fees and charges on Borrower's extensions of credit from Lender on the dates such payments become due.

DEPOSITORY NAME: Wachovia Bank

Address: Roanoke, VA

Routing Number: Our Bank Account Number

Borrower's Deposit Account Number: Our Bank Account Number

(A voided copy of a check on this account is attached to this Authorization).

1.2 Borrower authorizes Lender to debit the Designated Account by no later than the close of business on the dates payments become due. The ACH debits shall be subject to the operating rules of the National Automated Clearing House Association, as in effect from time to time. If a due date does not fall on a Business Day, Lender shall debit the Designated Account on the first day following such due date. For purposes of this Agreement, Business Day means a day other than Saturday, Sunday or other day on which commercial banks are authorized to close or are in fact closed in the state where the Lender's lending office is located.

1.3 Borrower shall maintain sufficient funds in the Designated Account on the dates Lender enters debits authorized by this Agreement. If there are insufficient funds in the Designated Account on the date Lender enters any debit authorized by this Agreement, such debit will be reversed.

1.4 Lender or Borrower may terminate this Authorization by notice in writing. Any such termination notice shall be effective ten (10) days after its receipt. In the event Lender or Borrower terminates this Authorization, Borrower shall commence, as of the date such termination is effective, to make principal, interest and other payments in the funds and at such office of Lender as Lender may from time to time select or as otherwise provided in any agreement between Lender and Borrower for an extension of credit.

1.5 The amount of the debits on the Designated Account may be different from time to time. The Lender will notify Borrower of the amount of the next debit amount on each periodic billing statement.

1.6 The Borrower is being furnished a copy of this executed Authorization to keep.

1.7 Notices and inquiries to the Lender and Borrower should be addressed to:

Lender:

Bank of America, N.A.

Attention: Greg L. Richards

Roanoke Commercial Banking

302 South Jefferson Street

Roanoke, VA 24011-2010

Phone: _____

Fax: _____

Borrower:

Bluefield Gas Company

519 Kimball Avenue

Roanoke, VA 24030

Phone: _____

Fax: _____

Dated: 9/30/02

Bluefield Gas Company.

By: /s/ Dale P. Moore

Its: Vice President & Secretary

Bank of America, N. A.

By: /s/ Greg L. Richards

Greg L. Richards, Senior Vice President

Bank of America, N.A.

Promissory Note

Date September 26, 2003 x New " Renewal Amount \$2,000,000 Maturity Date November 21, 2005

Lender:

Bank of America, N.A.

Roanoke Commercial Banking

302 South Jefferson Street

Roanoke, VA 24011-2010

Borrower:

Bluefield Gas Company

519 Kimball Avenue

Roanoke, VA 24030

FOR VALUE RECEIVED, the undersigned Borrower unconditionally (and jointly and severally, if more than one) promises to pay to the order of Lender, its successors and assigns, without setoff, at its offices indicated at the beginning of this Note, or at such other place as may be designated by Lender, the principal amount of Two Million and 00/100 Dollars (\$2,000,000), or so much thereof as may be advanced from time to time in immediately available funds, together with interest computed daily on the outstanding principal balance hereunder, at an annual interest rate, and in accordance with the payment schedule, indicated below.

1. Rate

(a) Interest on this Note shall accrue at a per annum rate or rates equal to the LIBOR Rate plus 1.13% per annum.

(b) The LIBOR Rate means the interest rate determined by the following formula, rounded upward to the nearest 1/100 of one percent. (All amounts in the calculation will be determined by Lender as of the first day of the interest period.)

$$\text{LIBOR Rate} = \frac{\text{London Inter-Bank Offered Rate}}{(1.00 - \text{Reserve Percentage})}$$

Where,

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

(1) **London Inter-Bank Offered Rate** means the average per annum interest rate at which U.S. dollar deposits would be offered for the **Applicable Interest Period**, as defined below, by major banks in the London inter-bank market, as shown on the Telerate Page 3750 (or any successor page) at approximately 11:00 a.m. London time two (2) **London Banking Days** before the commencement of the **Applicable Interest Period**. If such rate does not appear on the Telerate Page 3750 (or any successor page), the rate for that **Applicable Interest Period** will be determined by such alternate method as reasonably selected by Lender. A **London Banking Day** is a day on which Lender's London Banking Center is open for business and dealing in offshore dollars.

(2) **Reserve Percentage** means the total of the maximum reserve percentages for determining the reserves to be maintained by member banks of the Federal Reserve System for Eurocurrency Liabilities, as defined in Federal Reserve Board Regulation D, rounded upward to the nearest 1/100 of one percent. The percentage will be expressed as a decimal, and will include, but not be limited to, marginal, emergency, supplemental, special, and other reserve percentages.

(3) **Applicable Interest Period** means each one-month period commencing on the first **LIBOR Banking Day**, defined below, of each calendar month through and including the day immediately before the first **LIBOR Banking Day** of the next calendar month. **LIBOR Banking Day** means a day, other than a Saturday or a Sunday, on which Lender is open for business in New York and London and dealing in offshore dollars.

(c) If at any time after the date hereof, the Lender (which shall include, for purposes of this Section, any corporation controlling the Lender) determines that the adoption or modification of any applicable Law regarding taxation, the Lender's required levels of reserves, deposits, insurance or capital (including any allocation of capital requirements or conditions), or similar requirements, or any interpretation or administration thereof by any Tribunal or compliance of the Lender with any of such requirements, has or would have the effect of (a) increasing the Lender's costs relating to the loan

evidenced by this Note, or (b) reducing the yield or rate of return of the Lender on such loan, to a level below that which the Lender could have achieved but for the adoption or modification of any such requirements, the Borrower shall, within fifteen (15) days of any request by the Lender, pay to the Lender such additional amounts as (in the Lender's sole judgment, after good faith and reasonable computation) will compensate the Lender for such increase in costs or reduction in yield or rate of return of the Lender. No failure by the Lender to immediately demand payment of any additional amounts payable hereunder shall constitute a waiver of the Lender's right to demand payment of such amounts at any subsequent time. Nothing herein contained shall be construed or so operate as to require the Borrower to pay any interest, fees, costs or charges greater than is permitted by applicable Law. For purposes of this Note:

Laws means all constitutions, treaties, statutes, laws, ordinances, regulations, rules, order, writs, injunctions, or decrees of the United States of America, any state or commonwealth, any municipality, any foreign country, any territory or possession, or any Tribunal; and

Tribunal means any state, commonwealth, federal, foreign, territorial or other court or governmental department, commission, board, bureau, district, authority, agency, central bank, or instrumentality, or any arbitration authority.

Notwithstanding any provision of this Note, Lender does not intend to charge and Borrower shall not be required to pay any amount of interest or other charges in excess of the maximum permitted by the applicable law of the Commonwealth of Virginia; if any higher rate ceiling is lawful, then that higher rate ceiling shall apply, and any payment in excess of such maximum shall be refunded to Borrower or credited against principal, at the option of Lender. The foregoing sentence shall have no effect if under Virginia law Borrower is unable to plead usury as a defense.

2. Accrual Method. Unless otherwise indicated, interest at the Rate set forth above will be calculated by the 365/360 day method (a daily amount of interest is computed for a hypothetical year of 360 days; that amount is multiplied by the actual number of days for which any principal is outstanding hereunder).

3. Rate Change Date. Any Rate based on a fluctuating index or base rate will change, unless otherwise provided, each time and as of the date that the index or base rate changes. In the event any index is discontinued, Lender shall substitute an index determined by Lender to be comparable, in its sole discretion.

4. Payment Schedule. All payments received hereunder shall be applied first to the payment of any expense or charges payable hereunder or under any other loan documents executed in connection with this Note, then to interest due and payable, with the balance applied to principal, or in such other order as Lender shall determine at its option.

The principal of and interest on this Note shall be due and payable as follows:

- a. On October 1, 2003, and the same day of each month thereafter until this Note is paid in full, the amount of accrued but unpaid interest hereon shall be due and payable; and
- b. All indebtedness hereunder, including outstanding principal and accrued interest, unless sooner paid, shall be due and payable on November 21, 2005.

5. Automatic Payment.

Borrower has elected to authorize Lender to effect payment of sums due under this Note by means of debiting Borrower's account number /VA. This authorization shall not affect the obligation of Borrower to pay such sums when due, without notice, if there are insufficient funds in such account to make such payment in full on the due date thereof, or if Lender fails to debit the account.

6. Waivers, Consents and Covenants. Borrower, any indorser or guarantor hereof, or any other party hereto (individually an Obligor and collectively Obligors) and each of them jointly and severally: (a) waive presentment, demand, protest, notice of demand, notice of intent to accelerate, notice of acceleration of maturity, notice of protest, notice of nonpayment, notice of dishonor, and any other notice required to be given under the law to any Obligor in connection with the delivery, acceptance, performance, default or enforcement of this Note, any indorsement or guaranty of this Note, or any other documents executed in connection with this Note or any other note or other loan documents now or hereafter executed in connection with any obligation of Borrower to Lender (the Loan Documents); (b) consent to all delays, extensions, renewals or other modifications of this Note or the Loan Documents, or waivers of any term hereof or of the Loan Documents, or release or discharge by Lender of any of Obligors, or release, substitution or exchange of any security for the payment hereof, or the failure to act on the part of Lender, or any indulgence shown by Lender (without notice to or further assent from any of Obligors), and agree that no such action, failure to act or failure to exercise any right or remedy by Lender shall in any way affect or impair the obligations of any Obligors or be construed as a waiver by Lender of, or otherwise affect, any of Lender's rights under this Note, under any indorsement or guaranty of this Note or under any of the Loan Documents; and (c) agree to pay, on demand, all costs and expenses of collection or defense of this Note or of any indorsement or guaranty hereof and/or the enforcement or defense of Lender's rights with respect to, or the administration, supervision, preservation, or protection of, or realization upon, any property securing payment hereof, including, without limitation, reasonable attorney's fees, including fees related to any suit, mediation or arbitration proceeding, out of court payment agreement, trial, appeal, bankruptcy proceedings or other proceeding, in the amount of 25% of the principal amount of this Note, or such greater amount as may be determined reasonable by any arbitrator or court, whichever is applicable.

7. Prepayments. Prepayments may be made in whole or in part at any time without penalty or premium. All prepayments of principal shall be applied in the inverse order of maturity, or in such other order as Lender shall determine in its sole discretion. If there is a prepayment of any such principal, because of acceleration or otherwise, the prepayment shall be accompanied by the amount of accrued interest on the amount prepaid.

8. Delinquency Charge. To the extent permitted by law, a delinquency charge may be imposed in an amount not to exceed four percent (4%) of any payment that is more than fifteen days late.

9. Events of Default. The following are events of default hereunder: (a) the failure to pay or perform any obligation, liability or indebtedness of any Obligor to Lender, or to any affiliate or subsidiary of Bank of America, N.A. Corporation, whether under this Note or any Loan Documents, as and when due (whether upon demand, at maturity or by acceleration); (b) the failure to pay or perform any other obligation, liability or indebtedness of any Obligor to any other party; (c) the death of any Obligor (if an individual); (d) the resignation or withdrawal of any partner or a material owner/guarantor of Borrower, as determined by Lender in its sole discretion; (e) the commencement of a proceeding against any Obligor for dissolution or liquidation, the voluntary or involuntary termination or dissolution of any Obligor or the merger or consolidation of any Obligor with or into another entity; (f) the insolvency of, the business failure of, the appointment of a custodian, trustee, liquidator or receiver for or for any of the property of, the assignment for the benefit of creditors by, or the filing of a petition under bankruptcy, insolvency or debtor's relief law or the filing of a petition for any adjustment of indebtedness, composition or extension by or against any Obligor; (g) the determination by Lender that any representation or warranty made to Lender by any Obligor in any Loan Documents or otherwise is or was, when it was made, untrue or materially misleading; (h) the failure of any Obligor to timely deliver such financial statements, including tax returns, other statements of condition or other information, as Lender shall request from time to time; (i) the entry of a judgment against any Obligor which Lender deems to be of a material nature, in Lender's sole discretion; (j) the seizure or forfeiture of, or the issuance of any writ of possession, garnishment or attachment, or any turnover order for any property of any Obligor; (k) the determination by Lender that it is insecure for any reason; (l) the determination by Lender that a material adverse change has occurred in the financial condition of any Obligor; or (m) the failure of Borrower's business to comply with any law or regulation controlling its operation.

10. Remedies upon Default. Whenever there is a default under this Note (a) the entire balance outstanding hereunder and all other obligations of any Obligor to Lender (however acquired or evidenced) shall, at the option of Lender, become immediately due and payable and any obligation of Lender to permit further borrowing under this Note shall immediately cease and terminate, and/or (b) to the extent permitted by law, the Rate of interest on the unpaid principal shall be increased at Lender's discretion up to the maximum rate allowed by law, or if none, 25% per annum (the Default Rate). The provisions herein for a Default Rate shall not be deemed to extend the time for any payment hereunder or to constitute a grace period giving Obligors a right to cure any default. At Lender's option, any accrued and unpaid interest, fees or charges may, for purposes of computing and accruing interest on a daily basis after the due date of this Note or any installment thereof, be deemed to be a part of the principal balance, and interest shall accrue on a daily compounded basis after such date at the Default Rate provided in this Note until the entire outstanding balance of principal and interest is paid in full. Upon a default under this Note, Lender is hereby authorized at any time, at its option and without notice or demand, to set off and charge against any deposit accounts of any Obligor (as well as any money, instruments, securities, documents, chattel paper, credits, claims, demands, income and any other property, rights and interests of any Obligor), which at any time shall come into the possession or custody or under the control of Lender or any of its agents, affiliates or correspondents, any and all obligations due hereunder. Additionally, Lender shall have all rights and remedies available under each of the Loan Documents, as well as all rights and remedies available at law or in equity.

11. Non-waiver. The failure at any time of Lender to exercise any of its options or any other rights hereunder shall not constitute a waiver thereof, nor shall it be a bar to the exercise of any of its options or rights at a later date. All rights and remedies of Lender shall be cumulative and may be pursued singly, successively or together, at the option of Lender. The acceptance by Lender of any partial payment shall not constitute a waiver of any default or of any of Lender's rights under this Note. No waiver of any of its rights hereunder, and no modification or amendment of this Note, shall be deemed to be made by Lender unless the same shall be in writing, duly signed on behalf of Lender; each such waiver shall apply only with respect to the specific instance involved, and shall in no way impair the rights of Lender or the obligations of Obligors to Lender in any other respect at any other time.

12. Applicable Law, Venue and Jurisdiction. This Note and the rights and obligations of Borrower and Lender shall be governed by and interpreted in accordance with the law of the Commonwealth of Virginia. In any litigation in connection with or to enforce this Note or any indorsement or guaranty of this Note or any Loan Documents, Obligors, and each of them, irrevocably consent to and confer personal jurisdiction on the courts of the Commonwealth of Virginia or the United States located within the Commonwealth of Virginia and expressly waive any objections as to venue in any such courts. Nothing contained herein shall, however, prevent Lender from bringing any action or exercising any rights within any other state or jurisdiction or from obtaining personal jurisdiction by any other means available under applicable law.

13. Partial Invalidity. The unenforceability or invalidity of any provision of this Note shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of this Note or of the Loan Documents to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

14. Binding Effect. This Note shall be binding upon and inure to the benefit of Borrower, Obligors and Lender and their respective successors, assigns, heirs and personal representatives, provided, however, that no obligations of Borrower or Obligors hereunder can be assigned without prior written consent of Lender.

15. Controlling Document. To the extent that this Note conflicts with or is in any way incompatible with any other document related specifically to the loan evidenced by this Note, this Note shall control over any other such document, and if this Note does not address an issue, then each such document shall control to the extent that it deals most specifically with an issue.

16. ARBITRATION. ANY CONTROVERSY OR CLAIM BETWEEN OR AMONG THE PARTIES HERETO INCLUDING BUT NOT LIMITED TO THOSE ARISING OUT OF OR RELATING TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT OR ANY RELATED INSTRUMENTS,

AGREEMENTS OR DOCUMENTS, INCLUDING ANY CLAIM BASED ON OR ARISING FROM AN ALLEGED TORT, SHALL BE DETERMINED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (OR IF NOT APPLICABLE, THE APPLICABLE STATE LAW), THE RULES OF PRACTICE AND PROCEDURE FOR THE ARBITRATION OF COMMERCIAL DISPUTES OF J.A.M.S./ENDISPUTE OR ANY SUCCESSOR THEREOF (J.A.M.S.), AND THE SPECIAL RULES SET FORTH BELOW. IN THE EVENT OF ANY INCONSISTENCY, THE SPECIAL RULES SHALL CONTROL. JUDGMENT UPON ANY ARBITRATION AWARD MAY BE ENTERED IN ANY COURT HAVING JURISDICTION. ANY PARTY TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT MAY BRING AN ACTION, INCLUDING A SUMMARY OR EXPEDITED PROCEEDING, TO COMPEL ARBITRATION OF ANY CONTROVERSY OR CLAIM TO WHICH THIS AGREEMENT APPLIES IN ANY COURT HAVING JURISDICTION OVER SUCH ACTION.

A. SPECIAL RULES. THE ARBITRATION SHALL BE CONDUCTED IN THE COUNTY OF ANY BORROWER S DOMICILE AT THE TIME OF THE EXECUTION OF THIS INSTRUMENT, AGREEMENT OR DOCUMENT AND ADMINISTERED BY J.A.M.S. WHO WILL APPOINT AN ARBITRATOR; IF J.A.M.S. IS UNABLE OR LEGALLY PRECLUDED FROM ADMINISTERING THE ARBITRATION, THEN THE AMERICAN ARBITRATION ASSOCIATION WILL SERVE. ALL ARBITRATION HEARINGS WILL BE COMMENCED WITHIN 90 DAYS OF THE DEMAND FOR ARBITRATION; FURTHER, THE ARBITRATOR SHALL ONLY, UPON A SHOWING OF CAUSE, BE PERMITTED TO EXTEND THE COMMENCEMENT OF SUCH HEARING FOR UP TO AN ADDITIONAL 60 DAYS.

B. RESERVATION OF RIGHTS. NOTHING IN THIS ARBITRATION PROVISION SHALL BE DEEMED TO (I) LIMIT THE APPLICABILITY OF ANY OTHERWISE APPLICABLE STATUTES OF LIMITATION OR REPOSE AND ANY WAIVERS CONTAINED IN THIS INSTRUMENT, AGREEMENT OR DOCUMENT; OR (II) BE A WAIVER BY LENDER OF THE PROTECTION AFFORDED TO IT BY 12 U.S.C. SEC. 91 OR ANY SUBSTANTIALLY EQUIVALENT STATE LAW; OR (III) LIMIT THE RIGHT OF LENDER HERETO (A) TO EXERCISE SELF HELP REMEDIES SUCH AS (BUT NOT LIMITED TO) SETOFF, OR (B) TO FORECLOSE AGAINST ANY REAL OR PERSONAL PROPERTY COLLATERAL, OR (C) TO OBTAIN FROM A COURT PROVISIONAL OR ANCILLARY REMEDIES SUCH AS (BUT NOT LIMITED TO) INJUNCTIVE RELIEF, WRIT OF POSSESSION OR THE APPOINTMENT OF A RECEIVER. LENDER MAY EXERCISE SUCH SELF HELP RIGHTS, FORECLOSE UPON SUCH PROPERTY, OR OBTAIN SUCH PROVISIONAL OR ANCILLARY REMEDIES BEFORE, DURING OR AFTER THE PENDENCY OF ANY ARBITRATION PROCEEDING BROUGHT PURSUANT TO THIS INSTRUMENT, AGREEMENT OR DOCUMENT. NEITHER THIS EXERCISE OF SELF HELP REMEDIES NOR THE INSTITUTION OR MAINTENANCE OF AN ACTION FOR FORECLOSURE OR PROVISIONAL OR ANCILLARY REMEDIES SHALL CONSTITUTE A WAIVER OF THE RIGHT OF ANY PARTY, INCLUDING THE CLAIMANT IN ANY SUCH ACTION, TO ARBITRATE THE MERITS OF THE CONTROVERSY OR CLAIM OCCASIONING RESORT TO SUCH REMEDIES.

Borrower represents to Lender that the proceeds of this loan are to be used primarily for business, commercial or agricultural purposes. Borrower acknowledges having read and understood, and agrees to be bound by, all terms and conditions of this Note and hereby executes this Note under seal as of the date here above written.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN PROMISSORY NOTE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Borrower

Bluefield Gas Company

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

By: /s/ Dale P. Moore

Name: Dale P. Moore

Its: Vice President and Secretary

Date September 26, 2003

Continuing and Unconditional Guaranty

Lender:

Bank of America, N.A.

Banking Center:

302 South Jefferson Street

P. O. Box 14111

Roanoke, VA 24038-4111

Guarantor:

RGC Resources, Inc.

519 Kimball Avenue

Roanoke, VA 24030

Borrower : Bluefield Gas Company, a Virginia corporation

(Borrower's Name)

1. Guaranty. FOR VALUE RECEIVED, and to induce Bank of America, N.A. (Attn: Gregory L. Richards) (**Lender**) to make loans or advances or to extend credit or other financial accommodations or benefits, with or without security, to or for the account of Borrower, the undersigned Guarantor , if more than one, then each of them jointly and severally, hereby irrevocably and unconditionally guarantees to **Lender** the full and prompt payment when due, whether by acceleration or otherwise, of any and all Liabilities (as hereinafter defined) of Borrower to **Lender** . This Guaranty is continuing and unlimited as to the amount, and is cumulative to and does not supersede any other guaranties.

Guarantor further unconditionally guarantees the faithful, prompt and complete compliance by Borrower with all Obligations (as hereinafter defined). The undertakings of Guarantor hereunder are independent of the Liabilities and Obligations of Borrower and a separate action or actions for payment, damages or performance may be brought or prosecuted against Guarantor, whether or not an action is brought against Borrower or to realize upon the security for the Liabilities and/or Obligations, whether or not Borrower is joined in any such action or actions, and whether or not notice is given or demand is made upon Borrower.

Lender shall not be required to proceed first against Borrower, or any other person, or entity, whether primarily or secondarily liable, or against any collateral held by it, before resorting to Guarantor for payment, and Guarantor shall not be entitled to assert as a defense to the enforceability of the Guaranty any defense of Borrower with respect to any Liabilities or Obligations.

2. Paragraph Headings, Governing Law and Binding Effect. Guarantor agrees that the paragraph headings in this Guaranty are for convenience only and that they will not limit any of the provisions of this Guaranty. Guarantor further agrees that this Guaranty shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia and applicable United States federal law. Guarantor further agrees that this Guaranty shall be deemed to have been made in the Commonwealth of Virginia at **Lender**'s address indicated above, and shall be governed by, and construed in accordance with, the laws of the Commonwealth of Virginia, or the United States courts located within the Commonwealth of Virginia, and is performable in the Commonwealth of Virginia. This Guaranty is binding upon Guarantor, his, their or its executors, administrators, successors or assigns, and shall inure to the benefit of **Lender**, its successors, indorsees or assigns. Anyone executing this Guaranty shall be bound by the terms hereof without regard to execution by anyone else.

3. Definitions.

A. Guarantor shall mean Guarantor or any one or more of them.

B. Liability or Liabilities shall mean without limitation, indebtedness, and obligations of Borrower and/or Guarantor to **Lender**, whether direct or indirect, absolute or contingent, joint or several, secured or unsecured, due or not due, liquidated or unliquidated, arising by operation of law or otherwise, now or hereafter existing, or held or to be held by **Lender** for its own account or as agent for another or others, whether created directly, indirectly, or acquired by assignment or otherwise, including but not limited to all extensions or renewals thereof, and all sums payable under or by virtue thereof, including without limitation, all amounts of principal and interest, all expenses (including reasonable attorney's fees and cost of collection) incurred in the collection thereof or the enforcement of rights thereunder (including without limitation, any liability arising from failure to comply with state or federal laws, rules and regulations concerning the control of hazardous waste or substances at or with respect to any real estate securing any loan guaranteed hereby), whether arising in the ordinary course of business or otherwise. If Borrower is a partnership, corporation or other entity the term Liability or Liabilities as used herein shall include all Liabilities to **Lender** of any successor entity or entities.

C. Loan Documents shall mean all security agreements and other documents securing payment of the Liabilities and all notes and other agreements, documents, and instruments evidencing or relating to the Liabilities and Obligations.

D. Obligation or Obligations shall mean all terms, conditions, covenants, agreements and undertakings of Borrower and/or Guarantor under all notes and other documents evidencing the Liabilities, and under security agreements and other agreements, documents and instruments executed in connection with the Liabilities or related thereto.

4. Waivers by Guarantor. To the extent permitted by law, Guarantor waives notice of acceptance of this Guaranty, notice of any Liabilities or Obligations to which it may apply, presentment, demand for payment, protest, notice of dishonor or nonpayment of any Liabilities, notice of intent to accelerate, notice of acceleration, and notice of any suit or the taking of other action by **Lender** against Borrower, Guarantor or any other person, any applicable statute of limitations and any other notice to any party liable on any Loan Document (including Guarantor).

So long as there remains any liability of Guarantor hereunder, each Guarantor also hereby waives any claim, right or remedy which such Guarantor may now have or hereafter acquire against Borrower that arises hereunder and/or from the performance by any other Guarantor hereunder including, without limitation, any claim, remedy or right of subrogation, reimbursement, exoneration, contribution, indemnification, or participation in any claim, right or remedy of **Lender** against Borrower or against any security which **Lender** now has or hereafter acquires, whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise.

Guarantor also waives the benefits of any provision of law requiring that **Lender** exhaust any right or remedy, or take any action, against Borrower, any Guarantor, any other person and/or property including but not limited to the provisions of the Virginia Code Section 49-25 and the Virginia Code Section 49-26, as amended, or otherwise.

Lender may at any time and from time to time (whether before or after revocation or termination of this Guaranty) without notice to Guarantor (except as required by law), without incurring responsibility to Guarantor, without impairing, releasing or otherwise affecting the Obligations of Guarantor, in whole or in part, and without the indorsement or execution by Guarantor of any additional consent, waiver or guaranty: (a) change the manner, place or terms of payment, or change or extend the time of or renew, or change any interest rate or alter any Liability or Obligation or installment thereof, or any security therefor; (b) loan additional monies or extend additional credit to Borrower, with or without security, thereby creating new Liabilities or Obligations the payment or performance of which shall be guaranteed hereunder, and the Guaranty herein made shall apply to the Liabilities and Obligations as so changed, extended, surrendered, realized upon or otherwise altered; (c) sell, exchange, release, surrender, realize upon or otherwise deal with in any manner and in any order any property at any time pledged or mortgaged to secure the Liabilities or Obligations and any offset there against; (d) exercise or refrain from exercising any rights against Borrower or others (including Guarantor) or act or refrain from acting in any other manner; (e) settle or compromise any Liability or Obligation or any security therefor and subordinate the payment of all or any part thereof to the payment of any Liability or Obligation of any other parties primarily or secondarily liable on any of the Liabilities or Obligations; (f) release or compromise any Liability of Guarantor hereunder or any Liability or Obligation of any other parties primarily or secondarily liable on any of the Liabilities or Obligations; or (g) apply any sums from any sources to any Liability without regard to any Liabilities remaining unpaid.

5. Subordination. Upon written demand of **Lender after a default by Borrower on the Obligations or by Guarantor under this Guaranty**, Guarantor agrees that it will not demand, take or receive from Borrower, by set-off or in any other manner, payment of any debt, now and at any time or times hereafter owing by Borrower to Guarantor unless and until all the Liabilities and Obligations shall have been fully paid and performed, and any security interest, liens or encumbrances which Guarantor now has and from time to time hereafter may have upon any of the assets of Borrower shall be made subordinate, junior and inferior and postponed in priority, operation and effect to any security interest of **Lender** in such assets.

6. Waivers by Lender. No delay on the part of **Lender** in exercising any of its options, powers or rights, and no partial or single exercise thereof, shall constitute a waiver thereof. No waiver of any of its rights hereunder, and no modification or amendment of this Guaranty, shall be deemed to be made by Lender unless the same shall be in writing, duly signed on behalf of Lender; and each such waiver, if any, shall apply only with respect to the specific instance involved, and shall in no way impair the rights of Lender or the obligations of Guarantor to Lender in any other respect at any other time.

7. Termination. This Guaranty shall be binding on Guarantor until written notice of revocation signed by such Guarantor or written notice of the death of such Guarantor shall have been received by Lender. No notice of revocation or termination hereof shall affect in any manner rights arising under this Guaranty with respect to Liabilities or Obligations that shall have been committed, created, contracted, assumed or incurred prior to receipt of such written notice pursuant to any agreement entered into by Lender prior to receipt of such notice. The sole effect of such notice of revocation or termination hereof shall be to exclude from this Guaranty, Liabilities or Obligations thereafter arising that are unconnected with Liabilities or Obligations theretofore arising or transactions entered into theretofore.

In the event of the death of Guarantor, the liability of the estate of the deceased Guarantor shall continue in full force and effect as to (i) the Liabilities existing at the date of death, and any renewals or extensions thereof, and (ii) loans or advances made to or for the account of Borrower after the date of death of the deceased Guarantor pursuant to a commitment made by Lender to Borrower prior to the date of such death.

8. Partial Invalidity and/or Enforceability of Guaranty. The unenforceability or invalidity of any provision of this Guaranty shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document as it may apply to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or

circumstances.

In the event Lender is required to relinquish or return the payments, the collateral or the proceeds thereof, in whole or in part, which had been previously applied to or retained for application against any Liability, by reason of a proceeding arising under the Bankruptcy Code, or for any other reason, this Guaranty shall automatically continue to be effective notwithstanding any previous cancellation or release effected by Lender.

9. Change of Status. Guarantor will not become a party to a merger or consolidation with any other company, except where Guarantor is the surviving corporation or entity, and all covenants under this Guaranty are assumed by the surviving entity. Further, Guarantor may not change its legal structure, without the written consent of Lender and all covenants under this Guaranty are assumed by the new or surviving entity. Guarantor further agrees that this Guaranty shall be binding, legal and enforceable against Guarantor in the event Borrower changes its name, status or type of entity.

10. Financial and Other Information. Guarantor has made an independent investigation of the financial condition and affairs of Borrower prior to entering into this Guaranty, and Guarantor will continue to make such investigation; and in entering into this Guaranty Guarantor has not relied upon any representation of Lender as to the financial condition, operation or creditworthiness of Borrower. Guarantor further agrees that Lender shall have no duty or responsibility now or hereafter to make any investigation or appraisal of Borrower on behalf of Guarantor or to provide Guarantor with any credit or other information which may come to its attention now or hereafter. Guarantor agrees to provide the following financial information and statements in form and content acceptable to Lender and such additional information as requested by Lender from time to time.

Guarantor's annual financial statements in form satisfactory to Lender by April 1 of each year, certified and dated by Guarantor.

11. Notices. Notice shall be deemed reasonable if mailed postage prepaid at least ten (10) days before the related action to the address of Guarantor or Lender, at their respective addresses indicated at the beginning of this Guaranty, or to such other address as any party may designate by written notice to the other party. Each notice, request and demand shall be deemed given or made, if sent by mail, upon the earlier of the date of receipt or five (5) days after deposit in the U.S. Mail, first class postage prepaid, or if sent by any other means, upon delivery.

12. Guarantor Duties. Guarantor shall upon notice or demand by Lender promptly and with due diligence pay all Liabilities and perform and satisfy all Obligations for the benefit of Lender in the event of (a) the occurrence of any default under any Loan Documents; (b) the failure of any Borrower or Guarantor to perform any obligation or pay any liability or indebtedness of any Borrower or Guarantor to Lender, or to any affiliate of Lender, whether under any Note, Guaranty, or any other agreement, now or hereafter existing, as and when due (whether upon demand, at maturity or by acceleration); (c) the death of the Guarantor; (d) the commencement of a proceeding against any Borrower or Guarantor for dissolution or liquidation, the voluntary or involuntary termination or dissolution of any Borrower or Guarantor or the merger or consolidation of any Borrower or Guarantor with or into another entity; (e) the insolvency, or the business failure of, or the appointment of a custodian, trustee, liquidator or receiver for or of any of the property of, or the assignment for the benefit of creditors by, or the filing of a petition under bankruptcy, insolvency or debtor's relief law or the filing of a petition for any adjustment of indebtedness, composition or extension by or against any Borrower or Guarantor; (h) the sole determination by Lender that any representation or warranty to Lender in any Loan Document or otherwise to Lender was untrue or materially misleading when made; (f) the failure of Guarantor or Borrower to timely deliver such financial statements including tax returns and all schedules, or other statements of condition or other information, as Lender shall request from time to time in accordance with this Guaranty or any loan agreement in effect between Borrower

Bank of America

Continuing and Unconditional Guaranty

Virginia [Commercial]

-2-

2/96

and Lender; (g) the entry of a judgment against Borrower or Guarantor which Lender deems to be of a material nature in the sole discretion of Lender; (h) the seizure or forfeiture of Borrower or Guarantor's property, or the issuance of any writ of possession, garnishment or attachment, or any turnover order; (i) the sole determination by Lender that Guarantor or Borrower jointly or severally, has suffered a material adverse change in its financial condition; (j) the determination by Lender that for any reason it is insecure; (k) any lien or additional security interest being placed upon any collateral which is security for any Loan Document; or (l) the failure of Borrower's business to comply with any law or regulation controlling the operation of Borrower's business.

13. Remedies. Upon the failure of Guarantor to fulfill its duty to pay all Liabilities and perform and satisfy all Obligations as required hereunder, Lender shall have all of the remedies of a creditor and, to the extent applicable, of a secured party, under all applicable law, and without limiting the generality of the foregoing, Lender may, at its option and without notice or demand: (a) declare any Liability due and payable at once; (b) take possession of any collateral pledged by Borrower or Guarantor wherever located, and sell, resell, assign, transfer and deliver all or any part of said collateral of Borrower or Guarantor at any public or private sale or otherwise dispose of any or all of the collateral in its then condition, for cash or on credit or for future delivery, and in connection therewith Lender may impose reasonable conditions upon any such sale, and Lender, unless prohibited by law the provisions of which cannot be waived, may purchase all or any part of said collateral to be sold, free from and discharged of all trusts, claims, rights or redemption and equities of Borrower or Guarantor whatsoever; Guarantor acknowledges and agrees that the sale of any collateral through any nationally recognized broker-dealer, investment banker or any other method common in the securities industry shall be deemed a commercially reasonable sale under the Uniform Commercial Code or any other equivalent statute or federal law, and expressly waives notice thereof except as provided herein; and (c) set-off against any or all liabilities of Guarantor all money owed by Lender or any of its agents or affiliates in any capacity to Guarantor whether or not due, and also set-off against all other Liabilities of Guarantor to Lender all money owed by Lender in any capacity to Guarantor, and if exercised by Lender, Lender shall be deemed to have exercised such right of set-off and to have made a charge against any such money immediately upon the occurrence of such default although made or entered on the books subsequent thereto.

Lender shall have a properly perfected security interest in all of Guarantor's funds on deposit with Lender to secure the balance of any Liabilities and/or Obligations that Guarantor may now or in the future owe Lender. Lender is granted a contractual right of set-off and will not be liable for dishonoring checks or withdrawals where the exercise of Lender's contractual right of set-off or security interest results in insufficient funds in Guarantor's account. As authorized by law, Guarantor grants to Lender this contractual right of set-off and security interest in all property of Guarantor now or at anytime hereafter in the possession of Lender, including but not limited to any joint account, special account, account by the entireties, tenancy in common, and all dividends and distributions now or hereafter in the possession or control of Lender.

14. Attorney Fees, Cost and Expenses. Guarantor shall pay all costs of collection and reasonable attorney's fees, including reasonable attorney's fees in connection with any suit, mediation or arbitration proceeding, out of Court payment agreement, trial, appeal, bankruptcy proceedings or otherwise, incurred or paid by Lender in enforcing the payment of any Liability or defending this agreement.

15. Preservation of Property. Lender shall not be bound to take any steps necessary to preserve any rights in any property pledged as collateral to Lender to secure Borrower and/or Guarantor's Liabilities and Obligations as against prior parties who may be liable in connection therewith, and Borrower and Guarantor hereby agree to take any such steps. Lender, nevertheless, at any time, may (a) take any action it deems appropriate for the care or preservation of such property or of any rights of Borrower and/or Guarantor or Lender therein; (b) demand, sue for, collect or receive any money or property at any time due, payable or receivable on account of or in exchange for any property pledged as collateral, to Lender to secure Borrower and/or Guarantor's Liabilities to Lender; (c) compromise and settle with any person liable on such property; or (d) extend the time of payment or otherwise change the terms of the Loan Documents as to any party liable on the Loan Documents, all without notice to, without incurring responsibility to, and without affecting any of the Obligations or Liabilities of Guarantor.

16. ARBITRATION. ANY CLAIM OR CONTROVERSY (CLAIM) BETWEEN THE PARTIES, WHETHER ARISING IN CONTRACT OR TORT OR BY STATUTE INCLUDING, BUT NOT LIMITED TO, CLAIMS RESULTING FROM OR RELATING TO THIS AGREEMENT SHALL, UPON THE REQUEST OF EITHER PARTY, BE RESOLVED BY BINDING ARBITRATION IN ACCORDANCE WITH THE FEDERAL ARBITRATION ACT (TITLE 9, US CODE). ARBITRATION PROCEEDINGS WILL BE CONDUCTED IN ACCORDANCE WITH THE APPLICABLE RULES FOR THE ARBITRATION OF DISPUTES OF JAMS OR ANY SUCCESSOR THEREOF. THE ARBITRATION SHALL BE CONDUCTED IN ANY U. S. STATE WHERE REAL OR TANGIBLE PERSONAL PROPERTY

COLLATERAL FOR THE CREDIT IS LOCATED OR IF THERE IS NO SUCH COLLATERAL, IN VIRGINIA. THE ARBITRATION HEARING SHALL COMMENCE WITHIN 90 DAYS OF THE DEMAND FOR ARBITRATION AND CLOSE WITHIN 90 DAYS OF COMMENCEMENT, AND ANY AWARD, WHICH MAY INCLUDE LEGAL FEES, SHALL BE ISSUED (WITH A BRIEF WRITTEN STATEMENT OF THE REASONS THEREFORE) WITHIN 30 DAYS OF THE CLOSE OF HEARING. ANY DISPUTE CONCERNING WHETHER A CLAIM IS ARBITRABLE OR BARRED BY THE STATUTE OF LIMITATIONS SHALL BE DETERMINED BY THE ARBITRATOR. THIS ARBITRATION PROVISION IS NOT INTENDED TO LIMIT THE RIGHT OF ANY PARTY TO EXERCISE SELF-HELP REMEDIES, TO SEEK AND OBTAIN INTERIM OR PROVISIONAL RELIEF OF ANY KIND OR TO INITIATE JUDICIAL OR NON-JUDICIAL FORECLOSURE AGAINST ANY REAL OR PERSONAL PROPERTY COLLATERAL. BY AGREEING TO BINDING ARBITRATION, THE PARTIES IRREVOCABLY AND VOLUNTARILY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM. FURTHERMORE, IF FOR ANY REASON A CLAIM IS NOT ARBITRATED, THE PARTIES IRREVOCABLY AND VOLUNTARILY AGREE TO WAIVE ANY RIGHT TO A TRIAL BY JURY IN RESPECT OF SUCH CLAIM.

17. Controlling Document. To the extent that this Continuing and Unconditional Guaranty conflicts with or is in any way incompatible with any other Loan Document concerning this Obligation, any promissory note shall control over any other document, and if such promissory note does not address an issue, then each other document shall control to the extent that it deals most specifically with an issue.

18. Execution Under Seal. This Guaranty is being executed under seal by Guarantor.

19. NOTICE OF FINAL AGREEMENT. THIS WRITTEN CONTINUING AND UNCONDITIONAL GUARANTY REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Bank of America

Continuing and Unconditional Guaranty

Virginia [Commercial]

-3-

2/96

Edgar Filing: RGC RESOURCES INC - Form 10-Q/A

IN WITNESS WHEREOF, the undersigned has caused this Guaranty to be executed under seal on this 30 day of September, 2003.

Witnessed By:

/s/ John B. Williamson III

Guarantor: RGC Resources, Inc.

By: /s/ Dale P. Moore (Seal)

Name: Dale P. Moore
Title: Vice President and Secretary

State of Virginia)
)
City of Roanoke)

This instrument was acknowledged before me on September 30, 2003, by Dale P. Moore, Vice President and Secretary of RGC Resources, Inc., on behalf of the Guarantor.

(Seal)

/s/ Diane L. Rose

Notary Public

in and for the State of Virginia

Diane L. Rose

February 28, 2006

My Commission Expires

Print Name of Notary

Bank of America

Continuing and Unconditional Guaranty

Virginia [Commercial]