RGC RESOURCES INC
Form DEF 14A
December 08, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant x

Check the appropriate box:

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

RGC RESOURCES, INC.
(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

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

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

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

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

RGC RESOURCES, INC.
519 Kimball Avenue, N.E.
Roanoke, Virginia 24016

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD FEBRUARY 6, 2017

NOTICE is hereby given that, pursuant to its Bylaws and call of its Directors, the Annual Meeting of the Shareholders of RGC Resources, Inc. will be held at The Hotel Roanoke and Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia 24016, on Monday, February 6, 2017, at 9:00 a.m., for the purposes of:

1. Electing three Class B directors.

2. Ratifying the selection of Brown, Edwards & Company, L.L.P. as the independent registered public accounting firm.

3. Approving the Restricted Stock Plan, including the reservation of 300,000 Common Shares of the Company for issuance under the Restricted Stock Plan.

4. Approving, on an advisory basis, the compensation of our named executive officers.

5. Approving, on an advisory basis, the frequency of holding a non-binding advisory vote on executive compensation.

6. Acting on such other business as may properly come before the Annual Meeting.

Your attention is directed to the Proxy Statement accompanying this Notice for a more complete statement regarding matters proposed to be acted upon at the meeting. Only those shareholders of record as of the close of business on November 25, 2016 shall be entitled to vote at the meeting.

If you plan to attend the meeting, please contact Sherry Shaw at (540) 777-3972 or by emailing Ms. Shaw at Sherry_Shaw@RoanokeGas.com.

By Order of the Board of Directors,
John B. Williamson, III
Chairman

December 16, 2016

YOUR VOTE IS IMPORTANT. Even if you plan to be present at the Annual Meeting, please make sure to vote. You may vote by one of the following methods: (1) on-line at www.proxyvote.com, (2) completing, signing and returning the enclosed proxy in the postage paid envelope provided, (3) telephonically by calling (800) 690-6903, or (4) in person, even if you have previously sent in your proxy or voted on-line. Please note that the method by which you vote last will be the vote the Company counts. If your shares are held by a broker, bank or nominee, it is important that you provide them with your voting instructions.

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD FEBRUARY 6, 2017

This Proxy Statement is furnished in connection with the solicitation of proxies to be used at the Annual Meeting of Shareholders of RGC Resources, Inc. ("we", "Resources" or the "Company") to be held on Monday, February 6, 2017, at 9:00 a.m. at The Hotel Roanoke and Conference Center, 110 Shenandoah Avenue, Roanoke, Virginia 24016 (the "Annual Meeting").

Record Date and Voting Securities

Notice of the Company's Annual Meeting was mailed on or about December 16, 2016 to all shareholders of record. Only shareholders of record at the close of business on November 25, 2016, the record date, are entitled to vote at the Annual Meeting. A list of shareholders entitled to vote at the Annual Meeting will be open to the examination of any shareholder, for any purpose germane to the meeting, during ordinary business hours at the Company's offices at 519 Kimball Avenue, N.E., Roanoke, Virginia 24016, and at the time and place of the meeting.

As of the record date, 4,798,466 common shares were issued and outstanding. Each common share is entitled to one vote. A majority of the common shares outstanding entitled to vote on the record date, or at least 2,399,234 common shares, whether present in person or represented by proxy, will constitute a quorum for the transaction of business at the Annual Meeting.

Proxies in the form enclosed herewith are solicited by management at the direction of the Company's Board of Directors.

Voting Procedures

Shareholders of record may vote in person at the Annual Meeting, on-line at www.proxyvote.com, by mailing the proxy card, or by telephone by calling (800) 690-6903. Votes cast at the Annual Meeting will be tabulated by an Inspector of Elections, appointed by the Company. All proxy materials are available on the Company's website at www.rgcresources.com.

If your shares are held in a stock brokerage account by a bank, broker, trustee, or other nominee, you are considered the beneficial owner of shares held in "street name." You should have received a voting instruction form with these proxy materials from that organization rather than from the Company. As a beneficial owner, you still have the right to direct your broker or other nominee regarding how to vote the shares in your account by following these voting instructions. If you are a beneficial owner and do not instruct your broker or nominee how to vote your shares, this is considered a "broker non-vote" except that brokers and nominees can use their discretion to vote "uninstructed" shares with respect to Proposal No. 2 regarding the ratification of our independent registered public accounting firm.

Abstentions and broker non-votes are counted as shares present and entitled to vote for the purpose of determining a quorum. Abstentions will be counted towards the vote total for each of Proposals No. 2, 3 and 4 and will have the same effect as AGAINST votes. An abstention for Proposal No. 5 will have the same effect as 1YEAR.

If you return a signed and dated proxy card without marking voting selections or providing different instructions on the proxy card, your shares will be voted at the meeting FOR the election of the three director nominees listed in Proposal No. 1, FOR the ratification of the appointment of our independent registered public accounting firm in Proposal No. 2, FOR the approval of the Restricted Stock Plan and the reservation of 300,000 shares of the Common

Stock for issuance under the Restricted Stock Plan in Proposal No. 3, FOR the advisory approval of executive compensation in Proposal No. 4 and 1 YEAR for the frequency of the executive compensation vote. With respect to any other business that may properly come before the Annual Meeting and be submitted to a vote of shareholders, proxies will be voted in accordance with the best judgment of the designated proxy holders. We do not know of any matters to be presented at the Annual Meeting other than those described in this proxy statement.

The director nominees listed in Proposal No. 1 will be elected by a plurality of the votes of the shares present or represented by proxy at the Annual Meeting and entitled to vote on the election of directors. The three nominees receiving the most FOR votes will be elected.

The appointment of our independent registered public accounting firm listed in Proposal No. 2 will be ratified if a majority of shares present or represented by proxy at the Annual Meeting and entitled to vote thereon vote FOR such proposal.

Proposal No. 3, approval of the Restricted Stock Plan and reservation of 300,000 shares of the Common Stock for issuance under the Restricted Stock Plan, will be approved if it receives FOR votes from the holders of a majority of the votes of the shares present or represented by proxy at the Annual Meeting and entitled to vote.

Proposal No. 4, advisory approval of the compensation of the Company's named executive officers, will be considered to be approved if it receives FOR votes from the holders of a majority of shares either present or represented by proxy and entitled to vote.

Proposal No. 5, advisory approval of the frequency of the advisory vote on executive compensation, will be considered to be approved if it receives votes for 1 Year, 2 Years or 3 Years from the holders of a majority of shares either present or represented by proxy and entitled to vote.

Revoking a Proxy

A shareholder of record may revoke a proxy at any time before it is actually voted at the Annual Meeting either by signing and submitting a new proxy card with a later date or by attending the Annual Meeting and voting in person. A shareholder of record may also send timely written notice of revocation to Corporate Secretary, RGC Resources, Inc., P.O. Box 13007, Roanoke, VA 24030. If you hold shares through a bank or brokerage firm, you should have received a proxy card and voting instructions with these proxy materials, and you must contact the bank or brokerage firm directly to revoke any prior voting instructions.

Remainder of page intentionally left blank

PROPOSAL 1: ELECTION OF DIRECTORS OF RESOURCES

The Company's Board of Directors consists of nine members and is divided into three classes (A, B, and C) with staggered three-year terms. The current term of office of the Class B directors expires at the Annual Meeting. The terms of Class C and A directors expire in 2018 and 2019, respectively. Each of the Company's current directors and nominees for election are independent directors, as determined under the Company's independence standards adopted in accordance with the applicable rules of the Securities and Exchange Commission (the "SEC") and the NASDAQ Stock Market, except John S. D'Orazio and John B. Williamson, III.

There are three nominees for Class B directors: Nancy Howell Agee, J. Allen Layman and Raymond D. Smoot, Jr. The Governance and Nominating Committee and the Board of Directors have selected and endorsed each of these candidates because each brings unique talents and business experience to the Board.

Nancy Howell Agee is President and CEO of Carilion, Clinic, a 12,000 employee health services provider headquartered in western Virginia and has been a director of the Company since 2005. Ms. Agee serves on the board of directors of Healthcare Realty Trust Incorporated, a publicly traded company, Hometown Bank, a publicly traded local bank, and is the chair-elect for the American Hospital Association. She holds degrees with honors from the University of Virginia and Emory University and participated in postgraduate studies at the Kellogg School of Business, Northwestern University. Ms. Agee serves on numerous boards of other healthcare and community organizations.

We believe that Ms. Agee's business and leadership experiences as well as her knowledge of the economic and political environment in the Company's service area make her a valuable member of our Board.

J. Allen Layman is a private investor, who has been a director of the Company since 1991. He retired after 30 years in the telecommunications industry as President and CEO of R&B Communications and Chairman and President of Ntelos, Inc. Mr. Layman holds a degree in Business Administration and Economics from Bridgewater College. He serves as a director for Bank of Fincastle, and has served on numerous charitable and industry trade boards.

We believe Mr. Layman's experiences as a utility CEO and his in-depth knowledge of the regulatory landscape is helpful to our understanding of the rapidly changing energy industry and its implications on our customer base, which make him a valuable member of our Board.

Raymond D. Smoot, Jr. is a Senior Fellow of the Virginia Tech Foundation, Inc. and has been a director of the Company since 2005. He served as Chief Executive Officer of the Virginia Tech Foundation, Inc. from 2003 until his retirement in 2012. Dr. Smoot received his B.A. and M.S. degrees from Virginia Tech and a Ph.D. from The Ohio State University. He serves as the Chairman of the Board of Directors of Union Bankshares Corp. Dr. Smoot is a member of the Board of Directors of Carilion Clinic.

We believe that Dr. Smoot's professional experiences, financial expertise and public company board experience make him a valuable Board member.

Your Board of Directors recommends a vote FOR each of the nominees for Class B Director.

3

PROPOSAL 2: RATIFICATION OF BROWN, EDWARDS & COMPANY, L.L.P. AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Upon recommendation and selection by the Audit Committee, the Board of Directors accepted Brown, Edwards & Company, L.L.P. (“Brown Edwards”) as the independent registered public accounting firm to audit the financial statements of the Company for the year ending September 30, 2016. Brown Edwards has served as our independent registered public accounting firm since 2006. The Audit Committee has reappointed Brown Edwards as the independent registered public accounting firm to audit our consolidated financial statements as of and for the fiscal year ending September 30, 2017 and to audit our internal controls. A representative of Brown Edwards is expected to attend the meeting.

The Company’s Audit Committee is solely responsible for selecting the Company’s independent registered public accounting firm for the fiscal year ending September 30, 2017. Although shareholder ratification of the appointment of Brown Edwards is not required by the Company's bylaws, the Board of Directors believes that it is desirable to do so. If the shareholders do not ratify the appointment of Brown Edwards, the Audit Committee will consider whether to engage another independent registered public accounting firm. If the appointment of Brown Edwards is ratified by shareholders, the Audit Committee may change the appointment at any time if it determines a change would be in the best interest of the Company and its shareholders.

Your Board of Directors recommends a vote FOR the ratification of Brown, Edwards & Company, L.L.P.

PROPOSAL 3: APPROVAL OF THE RESTRICTED STOCK PLAN

Overview

The RGC Resources, Inc. Restricted Stock Plan (the "Restricted Stock Plan") is intended to provide equity incentives to our key employees and be the successor to the Company's (i) Key Employee Stock Option Plan and (ii) Stock Bonus Plan. The Key Employee Stock Option Plan will continue in force in respect of previously granted options with 41,000 options available for issue. We do not anticipate stock options being a significant part of our future compensation structure. The Stock Bonus Plan encouraged executive officers to own a position in the Company’s common shares equal to at least 50% of the value of their annual salary by providing that all officers with lower stock ownership positions use at least 50% of the amount of any performance incentive bonus to acquire Company common shares. The Restricted Stock Plan would replace the Stock Bonus Plan.

Our overall executive compensation philosophy is that pay should be competitive with the relevant market for executive talent, be performance-based and vary with the attainment of specific objectives, and be aligned with the interests of the Company’s shareholders. With respect to this latter point, we believe that the Restricted Stock Plan will play a key role in furthering an ownership culture among executive officers.

The Restricted Stock Plan has been adopted by the Board of Directors and will become effective upon shareholder approval.

Description of the Restricted Stock Plan

Our Compensation Committee will administer and interpret the Restricted Stock Plan with our Board of Directors also having authority to exercise any and all powers of the Compensation Committee. The Compensation Committee shall grant awards of restricted stock at such times and in such amounts and with such restrictions as it determines in its discretion.

Eligible employees under the Restricted Stock Plan will mean those officers or management employees designated by our Compensation Committee in its discretion. We currently expect that only our four named executive officers would be eligible.

Pending shareholder approval, the Compensation Committee will have total discretion in determining eligibility under the Restricted Stock Plan and in the amounts, timing, basis, conditions and restrictions of any awards of restricted stock; therefore, such benefits or amounts are not determinable at this time. Similarly, benefits or amounts that would have been received for the last completed fiscal year if the Restricted Stock Plan had been in effect cannot be determined at this time.

300,000 shares of our common stock would be issuable as awards under the Restricted Stock Plan. Any canceled or forfeited shares of an award would be available for reissuance. This number is subject to adjustment by the Compensation Committee in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in our corporate structure.

Each restricted stock award will be evidenced by an agreement with the recipient. The agreement shall set forth the "Vesting Period" and "Restriction Period" for the award and any other conditions or restrictions that the Compensation Committee deems advisable, including requirements established pursuant to the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, the Internal Revenue Code and any securities trading system or stock exchange upon which such restricted shares are listed.

The "Vesting Period" for an award represents substantial risk of forfeiture until certain dates, at which time such shares or a portion of such shares shall begin to "vest" over time and no longer be subject to a substantial risk of forfeiture. The default Vesting Period for an award shall be three years with one-third of the shares vesting on the first, second and third anniversaries of the effective date of the award, respectively, unless the Compensation Committee establishes otherwise. If a recipient resigns or is otherwise terminated from employment with the Company prior to the end of the Vesting Period, he or she would forfeit all interest to his or her unvested shares of restricted stock granted in an award. Unless otherwise established in an award agreement by the Compensation Committee, in the event of a recipient's death, disability or normal retirement (as considered under our defined benefit pension plan), all of the awarded shares shall vest and no longer be subject to a substantial risk of forfeiture. Likewise, all awarded shares shall vest in the event of a change in control, as defined in the recipient's agreement with the Company that relates to recipient's compensation and benefits upon the occurrence of a change in ownership of the Company or similar event (i.e., our Change-in-Control Agreement).

The "Restricted Period" for an award represents a period during which the recipient may not transfer, sell, pledge, assign, or otherwise alienate or hypothecate shares of restricted stock, and all cash dividends on such shares must be re-invested in our common stock (with the same restrictions as the award). Unless the Compensation Committee otherwise determines, the Restricted Period shall apply so long as shares of restricted stock are unvested and thereafter apply to 75% of such vested shares unless the recipient satisfies the following minimum levels of ownership of our common stock:

President, CEO	300% of annual base salary
CFO, COO	200% of annual base salary
Vice President	150% of annual base salary

The Compensation Committee will use its discretion to determine when and how such minimum levels are measured. Once a recipient satisfies the minimum level of ownership or once a recipient is no longer employed by the Company, the Restricted Period will no longer be applicable to vested shares. A change in control will not affect the Restricted Period.

The foregoing summary description of the Restricted Stock Plan is qualified in its entirety by reference to the full text of the plan attached to this proxy statement as Appendix A.

U.S. Federal Income Tax Consequences

Generally, the recipient of a restricted stock award will recognize ordinary income at the time the stock is received equal to the excess, if any, of the fair market value of the stock received over any amount paid by the recipient in exchange for the stock. If, however, the stock is not vested when it is received (i.e., it is subject to substantial forfeiture restrictions), the recipient generally will not recognize income until the stock becomes vested, at which time the recipient will recognize ordinary income equal to the excess, if any, of the fair market value of the stock on the date it becomes vested over any amount paid by the recipient in exchange for the stock. During the period that the forfeiture restrictions apply, the recipient shall be entitled to receive all dividends and other distributions paid with respect to the shares of restricted stock and will realize taxable income on such dividends.

The recipient's basis for the determination of gain or loss upon the subsequent disposition of shares acquired from a restricted stock award will be the amount paid for such shares plus any ordinary income recognized either when the stock is received or when the stock becomes vested.

Subject to the requirement of reasonableness, the provisions of Section 162(m) of the Internal Revenue Code and the satisfaction of a tax reporting obligation, we will generally be entitled to a tax deduction equal to the taxable ordinary income realized by the recipient of the restricted stock award.

Section 162(m) of the Internal Revenue Code precludes a public corporation from taking a deduction for compensation in excess of one million dollars paid to its chief executive officer or any of its four other highest-paid officers. However, compensation that qualifies under Section 162(m) as "performance-based" is specifically exempt from the deduction limit. The Restricted Stock Plan has been designed to provide flexibility with respect to whether restricted stock awards will qualify as performance-based compensation under Section 162(m). We believe that certain awards of restricted stock under the Restricted Stock Plan will so qualify and our deductions with respect to such awards should not be limited by Section 162(m). The Restricted Stock Plan does provide that all awards under the Restricted Stock Plan to employees covered by Section 162(m) are subject to other conditions, restrictions, and requirements as the Compensation Committee may determine to be necessary to avoid the loss of deduction under Section 162(m). However, certain awards of restricted stock may not qualify as performance-based compensation and, therefore, our compensation expense deductions relating to such awards will be subject to the Section 162(m) deduction limitation.

Required Vote and Board of Directors Recommendation

Approval of Proposal 3 requires the affirmative vote of a majority of the shares present or represented by proxy and entitled to vote at the Annual Meeting. Abstentions will be counted toward the tabulation of votes cast on the proposal and will have the same effect as AGAINST votes. Broker non-votes are counted towards a quorum, but will have no effect on the outcome of the vote.

Our Board of Directors believes that approval of Proposal 3 is in the best interests of our stockholders for the reasons stated above.

Your Board of Directors recommends a vote FOR the approval of the Restricted Stock Plan and reservation of 300,000 shares of Common Stock for issuance under the Restricted Stock Plan.

Remainder of page intentionally left blank

PROPOSAL 4: NON-BINDING SHAREHOLDER ADVISORY VOTE ON EXECUTIVE COMPENSATION

At the 2011 Annual Meeting, our shareholders voted to have an annual review of executive compensation. We believe that our executive compensation program is competitive within the industry and strongly aligned with the long-term interests of our shareholders. This program has been designed to promote a performance-based culture and ensure a philosophy of long-term value creation by aligning the interests of the executive officers with those of our shareholders by linking a meaningful portion of their compensation to the Company's performance. The program is also designed to meet short-term objectives and to attract and retain highly-talented executive officers who are critical to the successful execution of the Company's strategic business plan.

We also believe that both the Company and shareholders benefit from constructive and consistent dialogue. The proposal set forth above is intended to give you the opportunity to endorse or not endorse the compensation we paid to our named executive officers for fiscal 2016.

The Compensation Committee has overseen the development of the executive compensation program, as described more fully in the Compensation, Discussion and Analysis section of this Proxy Statement.

Please note that your vote is advisory and will not be binding upon the Company or the Board of Directors. However, the Board of Directors and Compensation Committee value the opinions that our shareholders express in their votes and in any additional dialogue. Consequently, the Compensation Committee intends to take into account the outcome of the vote when considering future executive compensation decisions for our executive officers.

Your Board of Directors recommends a vote FOR approval, on an advisory basis, of executive compensation of the named executive officers as disclosed in this proxy statement.

PROPOSAL 5: NON-BINDING SHAREHOLDER ADVISORY VOTE ON THE FREQUENCY OF HOLDING A NON-BINDING ADVISORY VOTE ON EXECUTIVE COMPENSATION

At least every 6 years, shareholders are to be provided an opportunity to cast an additional non-binding advisory vote to determine whether the shareholder advisory vote to approve compensation will occur, every one, two, or three years.

After careful consideration, our Board of Directors has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for our Company, and therefore our Board recommends that you vote for a one year interval for the advisory vote on executive compensation. The Company believes that an annual advisory vote will allow our shareholders to provide us with their direct input on our compensation philosophy, policies and practices as disclosed in the proxy statement every year.

Your Board of Directors recommends a vote FOR, on an advisory basis, the 1 YEAR frequency for the executive compensation vote.

BOARD OF DIRECTORS AND COMMITTEES OF THE BOARD OF DIRECTORS

The Company’s Board of Directors (the "Board") consists of nine directors and is divided equally into three classes, with staggered three-year terms. The Board has separate persons serving as its Chair and as the President and Chief Executive Officer ("CEO") of the Company, which, as discussed below under "The Board's Role in Risk Oversight" section, we believe is the most appropriate leadership structure at this time for the Company.

The Board met eight times during the 2016 fiscal year. All Board members attended at least 75 percent of Board and committee meetings in fiscal year 2016. Consistent with NASDAQ rules, a majority of the Company’s non-management directors met at least once each quarter without management present. All of the directors serving on the Board at the time attended the 2016 Annual Meeting of shareholders. The present principal occupation and employment during the past five years, and the office held with the Company, if any, of each director:

Name and Age	Year In Which First Elected As Director	Business Experience	Year in Which Assumed Principal Occupation
CLASS B DIRECTORS (Currently serving until 2017 Annual Meeting)			
Nancy Howell Agee Age 64	2005	See disclosure in Proposal No. 1 above.	2011
J. Allen Layman Age 64	1991	See disclosure in Proposal No. 1 above.	2003
Raymond D. Smoot, Jr. Age 69	2005	See disclosure in Proposal No. 1 above.	2012
CLASS C DIRECTORS (Serving until the 2018 Annual Meeting)			
John S. D'Orazio Age 56	2014	President, CEO & Director, RGC Resources, Inc. & Roanoke Gas Company. President and CEO, Roanoke Gas Company 2012-2014; Vice President & COO, Roanoke Gas Company 2003-2012. Mr. D'Orazio provides the Board with in-depth knowledge of the Company's operation, business strategy, risks and economic climate as well as extensive utility industry experience.	2014
Maryellen F. Goodlatte Age 64	2001	Attorney and Principal, law firm of Glenn, Feldmann, Darby & Goodlatte. Mrs. Goodlatte's experiences as an attorney in the Company's service area, in addition to her leadership as chair of the Governance and Nominating Committee, make her a valuable member of the Board.	1983
George W. Logan Age 71	2002	Principal, Pine Street Partners, LLC; Faculty, University of Virginia Darden Graduate School of Business. Mr. Logan's board governance and financial expertise as well as his professional business experiences make him a valuable Board member.	1993
CLASS A DIRECTORS (Serving until the 2019 Annual Meeting)			
Abney S. Boxley, III Age 58	1994	President and CEO of Boxley Materials Company; Director BNC Bancorp; Director, Carilion Clinic. Mr. Boxley's financial and business background, as well as his knowledge of construction and economic development opportunities in the Company's service area, make him a valuable member of our Board.	1988
S. Frank Smith	1990	Consultant, Alpha Coal Sales Company, LLC. Vice President - Industrial Sales, Alpha Coal Sales Company, LLC, 2009 - 2014. Mr. Smith's	2014

Age 68		in-depth knowledge of the competitive and regulatory landscape of energy markets, along with his leadership as chair of the Compensation Committee, make him a valuable member of our Board.	
John B. Williamson, III Age 62	1998	Chairman of the Board, RGC Resources, Inc.; Director, Bank of Botetourt, Inc.; Director, Optical Cable Corporation; Director, Luna Innovations Inc.; Director, Corning Natural Gas Holding Corporation. President and CEO, RGC Resources, Inc. 1998-2014. Mr. Williamson's utility industry experience, understanding of the changing natural gas business and in-depth knowledge of the operational, financial and regulatory aspects of the Company, make him a valuable member of our Board.	2014

The Board has standing Compensation, Audit, and Governance and Nominating committees. The Board has affirmatively determined that each of the Company’s current directors are considered independent directors in respect to each committee on which he or she serves, as determined under the Company’s independence standards adopted in accordance with the applicable rules of the SEC and the NASDAQ Stock Market, Inc. In addition, the Board of Directors has determined that George W. Logan and Raymond D. Smoot, Jr. are audit committee financial experts under applicable SEC rules. The following table summarizes each committee.

Committee	Members	Responsibilities	Independence
Compensation	S. Frank Smith, Chair Nancy Howell Agee Abney S. Boxley, III J. Allen Layman	Assists the Board in fulfilling its oversight responsibilities relating to the compensation of the Company's directors and executive officers.	Each Member is Independent
Audit	Raymond D. Smoot, Jr., Chair Abney S. Boxley, III George W. Logan S. Frank Smith	Reviews and assesses the Company’s processes to manage financial reporting risk and to manage investment, tax, and other financial risks. It also reviews the Company’s policies for risk assessment and steps management has taken to control significant risks, except those delegated by the Board to other committees.	Each Member is Independent
Governance and Nominating	Maryellen F. Goodlatte, Chair Nancy Howell Agee J. Allen Layman George W. Logan	Responsible for the oversight of a broad range of issues surrounding the composition and operation of the Board, including identifying individuals qualified to become Board members, recommending nominees for Board election, and recommending to the Board governance principles. It also provides assistance to the Board in the areas of committee member selection and rotation practices, evaluation of the overall effectiveness of the Board, and consideration of developments in corporate governance practices.	Each Member is Independent

The Board's Role in Risk Oversight

The Board and management have distinct roles in the identification, assessment, and management of risks that could affect the Company. The Board exercises its responsibility for risk directly and through its three standing committees. In Board or committee meetings, management provides periodic reports to provide guidance on risk assessment and mitigation. Each committee charged with risk oversight reports up to the Board on those matters.
The Board believes that its current leadership structure facilitates its oversight of risk by combining independent leadership, through independent board committees and majority independent board composition, with an experienced Chairman and a CEO who have intimate knowledge of the business, history, and the complex challenges the Company faces. The Chairman and CEO both have in-depth understanding of these matters, and the CEO has direct involvement

in the day-to-day management of the Company, uniquely positioning him to promptly identify and raise key business risks to the Board.

Director Nominations

The Governance and Nominating Committee establishes the process by which candidates are selected for possible inclusion in the recommended slate of director nominees. The Governance and Nominating Committee has a charter, which is available on the Company's website at www.rgcresources.com. The Governance and Nominating Committee will take into account the Company’s current needs and the qualities needed for Board service, including experience and achievement in business, finance, technology or other areas relevant to the Company’s activities; reputation, ethical character and maturity of judgment; diversity of viewpoints, backgrounds and experiences; absence of conflicts of interest that might impede the proper performance of director responsibilities; independence under SEC and NASDAQ rules; service on other boards of directors; sufficient time to devote to Board matters; and the ability to work effectively with other Board members. In the case of incumbent directors whose terms of office are set to expire, the Governance and Nominating Committee will review such directors’ overall service to the Company during their term, including the number of meetings attended, level of participation and quality of performance. For those potential new director candidates who appear upon first consideration to meet the Board’s selection criteria, the Governance and Nominating Committee will conduct appropriate inquiries into their background and qualifications and, depending on the result of such inquiries, arrange for in-person meetings with the potential candidates.

The Governance and Nominating Committee may use multiple sources for identifying director candidates, including its own contacts and referrals from other directors, members of management, the Company’s advisers, and executive search firms. The

Committee will consider director candidates recommended by shareholders and will evaluate such director candidates in the same manner in which it evaluates candidates recommended by other sources. Any director candidates to be recommended by shareholders should be described in writing to Corporate Secretary, RGC Resources, Inc., P.O. Box 13007, Roanoke, VA 24030. This recommendation must be sent no later than 120 days prior to the anniversary of the expected mailing date of this proxy statement, in order to be considered for inclusion in the proxy statement for the 2018 annual meeting of shareholders.

Transactions with Related Persons

The Board follows certain policies and procedures for the approval of transactions with related persons that are required to be reported under applicable SEC rules. The policy generally requires Audit Committee approval or ratification of transactions that involve more than $120,000 in which the Company is a participant and in which a Company director, nominee for director, executive officer, greater than 5% shareholder, or an immediate family member of any of the foregoing persons has a direct or indirect material interest, with various other qualifications and exclusions for reportable related party transactions set forth in applicable SEC rules, such as a transaction where the tariff gas service is at a rate approved by the Virginia State Corporation Commission or certain banking transactions. In reviewing a reportable related party transaction, the Audit Committee will, after reviewing all material information regarding the transaction, take into account, among other factors it deems appropriate, whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person’s interest in the transaction.

The Company contracted with Boxley Materials Company in fiscal 2016 for approximately $550,000 of paving services and related construction materials. Mr. Boxley, our director, is President and CEO of Boxley Materials. These goods and services were obtained at arms length pricing, terms and conditions. The Audit Committee has approved the transactions between the Company and Boxley Materials.

The Company has no other related party transactions to report for fiscal 2016.

Compensation of Directors

Directors' fees are set by the Compensation Committee and approved by the Board of Directors after the Committee considers the competitive market for directors and fee levels provided by comparable companies both within the utility industry and in the Company's geographic area. Mr. D’Orazio is not compensated for attendance at Board and committee meetings and does not receive the annual retainer for service as a Board member. The 2016 schedule of fees paid to directors is as follows:

Annual Director Retainer	$18,000
Additional Annual Retainer - Board Chair	12,000
Additional Annual Retainer - Audit Committee Chair	8,000
Additional Annual Retainer - Other Committee Chair	5,000
Attendance - each Board of Directors Meeting	1,600
Attendance - each Committee Meeting	1,600
Attendance - Board or Committee Meeting by telephone	1,200
Committee meeting held on the same day as Board meeting	900

Restricted Stock Plan for Outside Directors. Under the Company's Amended and Restated Restricted Stock Plan for Outside Directors (the "Director Restricted Plan"), originally adopted January 27, 1997, as amended on March 28, 2016 and effective October 1, 2016, a minimum of 40% of the annual retainer fee paid to each non-employee director of the Company on a monthly basis is paid in shares of Company common stock restricted under the terms of the

Director Restricted Plan ("Director Restricted Stock"). If the director owns more than 10,000 shares of Resources stock, the minimum requirement is waived. The number of shares of Director Restricted Stock is calculated each month based on the closing sales price on the first business day of the month of Resources' common shares on the NASDAQ Global Market. A participant can, subject to approval of the Compensation Committee, elect to receive up to 100% of the retainer fee in Director Restricted Stock. Such election cannot be revoked or amended during the fiscal year.

The shares of Director Restricted Stock will vest only in the case of a participant's death, disability, retirement (including not standing for reelection to the Board), or in the event of a change in control of Resources. There is no option to take cash in lieu of stock upon vesting of shares under this Plan. The Director Restricted Stock may not be sold, transferred, assigned or pledged by the participant until the shares have vested under the terms of this Plan. The shares of Director Restricted Stock will be forfeited to Resources by a participant's voluntary resignation during his or her term on the Board or removal for cause as a director.

Fiscal Year 2016 Director Fees

Name	Fees paid in cash	Fees paid in Restricted Stock[1]	Total
Nancy Howell Agee	$ 14,300	$ 17,667	$ 31,967
Abney S. Boxley, III	27,833	8,833	36,666
Maryellen F. Goodlatte	24,500	11,000	35,500
J. Allen Layman	25,800	7,067	32,867
George W. Logan	16,300	17,667	33,967
S. Frank Smith	31,600	11,000	42,600
Raymond D. Smoot, Jr.	33,600	10,267	43,867
John B. Williamson, III	29,833	14,833	44,666

Note 1: 40% of the annual retainer fees paid to non-employee directors must be paid in the form of Director Restricted Stock, unless a participant owns at least 10,000 shares of Company stock. This column also includes any additional portion of fees paid to directors in the form of Director Restricted Stock pursuant to the election of the director.

The following table shows directors who elected to receive a higher percentage of their fees as Director Restricted Stock in fiscal 2016:

Name	Percent if Greater than 40%
Nancy Howell Agee	100%
Abney S. Boxley, III	100%
Maryellen F. Goodlatte	50%
George W. Logan	100%
S. Frank Smith	50%

As of September 30, 2016, our non-employee directors held the following aggregate amounts of Restricted Stock:

Name	Shares of Restricted Stock
Nancy Howell Agee	11,858
Abney S. Boxley, III	11,409
Maryellen F. Goodlatte	9,859
J. Allen Layman	23,740
George W. Logan	17,629
S. Frank Smith	13,748
Raymond D. Smoot, Jr.	13,282
John B. Williamson, III	1,069

Section 16(a) Beneficial Ownership Reporting Compliance

Based on the Company's review of the copies of forms related to Section 16(a) of the Securities Exchange Act of 1934 regarding beneficial ownership reporting and representations from certain reporting persons, no other reports are required and one Form 4 for a single purchase by a director was filed late in fiscal 2016.

EXECUTIVE OFFICERS

Name and Age	Period Position Held	Position and Experience
John S. D'Orazio, 56	February 2014 to present	President & CEO - Resources, Roanoke Gas
	October 2012 to February 2014	President & CEO - Roanoke Gas
	January 2003 to September 2012	Vice President & COO - Roanoke Gas
Paul W. Nester, 42	February 2015 to present	Vice President, Treasurer, Secretary & CFO
	May 2012 to January 2015	Vice President, Treasurer & CFO
	March 2010 to April 2012	CFO, UXB International
Carl J. Shockley, Jr., 51	October 2012 to present	Vice President, Operations - Roanoke Gas
	May 2012 to September 2012	Director, Operations - Roanoke Gas
	August 2009 to April 2012	Director, Human Resources
Robert L. Wells, II, 52	February 2005 to present	Vice President, Information Technology

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 25, 2016, certain information regarding the beneficial ownership of the common shares of the Company by all directors, named executive officers, any holders of more than 5% of common shares and certain beneficial owners as a group. Unless otherwise noted in the footnotes to the table, the named persons have sole voting and investment power with respect to all outstanding common shares shown as beneficially owned by them. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o RGC Resources, Inc. P.O. Box 13007 Roanoke, Virginia 24030.

Name of Beneficial Owner	Common Shares Beneficially Owned as of 11/25/16[1]	Percent of Class
Nancy Howell Agee[2]	16,048	<1%
Abney S. Boxley, III	21,657	<1%
John S. D’Orazio[3]	37,638	<1%
Maryellen F. Goodlatte	15,639	<1%
J. Allen Layman	41,048	<1%
George W. Logan	57,896	1.2%
Paul W. Nester[3]	21,431	<1%
Carl J. Shockley, Jr.[3]	13,939	<1%
S. Frank Smith	55,296	1.2%
Raymond D. Smoot, Jr.[4]	22,613	<1%
Robert L. Wells, II[3]	14,421	<1%
John B. Williamson, III	86,997	1.8%
Anita G. Zucker c/o The Inter Tech Group, 4838 Jenkins Ave. North Charleston, SC 29405	297,692	6.2%
All current directors and executive officers aaa(as a Group - 12 Persons)	404,623	8.4%

Note 1: Includes Director Restricted Plan shares issued to outside directors still subject to vesting.
Note 2: Includes 13,653 shares owned in trust and 2,395 shares owned in spousal trust.

Note 3: Includes stock options shown in the Outstanding Equity Awards at Fiscal Year End section on page 16. All are
exercisable and included as shares beneficially owned.
Note 4: Includes 250 shares owned by spouse.

COMPENSATION DISCUSSION AND ANALYSIS

This section provides an overview of our executive compensation philosophy and why we believe the program is appropriate for the Company and its shareholders. We also discuss the Compensation Committee's methodology for determining appropriate and competitive levels of compensation for the named executive officers. Details of compensation paid to the named executive officers can be found in the tables that follow.

Compensation Philosophy and Objectives

Who are the named executive officers for fiscal year 2016?

The named executive officers for fiscal year 2016 are John S. D'Orazio, Paul W. Nester, Carl J. Shockley, Jr., and Robert L. Wells, II.

What person or group is responsible for determining the compensation levels of named executive officers?

The Compensation Committee has a charter, pursuant to which it reviews and recommends to the Board the compensation, including base salary and annual incentive compensation, of the Company's CEO and the other named executive officers.

The CEO is actively involved in the executive compensation process. The CEO reviews the performance of each of the named executive officers, other than his own, and, within the defined program parameters, recommends to the Compensation Committee base salary increases and incentive awards for such individuals. He provides the Compensation Committee with financial performance goals for the Company that are used to link pay with performance. The CEO also provides his review to the Compensation Committee with respect to the executive compensation program's ability to attract, retain and motivate the level of executive talent necessary to achieve the Company's business goals. The CEO attends the meetings of the Compensation Committee but does not participate in the Committee executive sessions.

The Compensation Committee did not utilize an outside consultant in fiscal year 2016.

What are the Company's executive compensation principles and objectives?

The Company's overall executive compensation philosophy is that pay should be competitive with the relevant market for executive talent, be performance-based, vary with the attainment of specific objectives, and be aligned with the interests of the Company's shareholders. The core principles of the Company's executive compensation program include the following:

Pay competitively. The Compensation Committee believes in positioning executive compensation at levels necessary to attract and retain exceptional leadership talent. An individual's performance and importance to the Company can result in total compensation being higher or lower than the target market position.

Pay-for-performance. The Compensation Committee structures executive compensation programs to balance annual and long-term corporate objectives, including specific measures which focus on operational and financial performance through incentive bonuses and the goal of fostering shareholder value creation through grants of stock options and payment of some bonuses in stock.

Create an ownership culture. The Compensation Committee believes that using compensation to instill an ownership culture effectively aligns the interests of executive officers and the shareholders. Half of all incentive compensation awarded to executive officers is required to be taken in the Company's common shares until a level of common share ownership valued at 50% of annual base salary is obtained. In addition, the Committee oversees a modest stock option plan intended to encourage stock ownership.

The CEO and the Compensation Committee periodically review the executive compensation philosophy. No changes have recently been made to the compensation philosophy; however, programmatic changes have been implemented at various times to enhance the effectiveness of the various compensation elements.

How do we determine executive pay?

The Compensation Committee benchmarks base salary, annual incentive bonus, other forms of incentive compensation and the Company's financial performance to a comparison group consisting of publicly traded gas utilities and local companies.

The Compensation Committee believes this is the best way to determine whether such compensation is competitive. The comparison group is selected based on six criteria:

1. Companies that an outsider, with no knowledge of the Company's internal deliberations on the topic, would agree offer reasonable comparisons for pay and performance purposes;
2. Companies that may overlap in the labor market for talent;
3. Companies with revenue and market capitalizations reasonable for comparison;
4. Companies whose business models, characteristics, growth potential, and human capital are similar but not necessarily identical to those of the Company;
5. Public companies based in the United States where compensation and financial data are available in proxy statements and Form 10-K filings; and
6. Companies large enough to have similar executive positions to ensure statistical significance.

Based on these criteria, the comparison group consists of:

Chesapeake Utilities Corporation	NW Natural, Inc.
Corning Natural Gas Holding Corporation	Optical Cable Corporation
Delta Natural Gas Company, Inc.	Unitil Corporation
Hometown Bank, Inc.	Spire, Inc.

In addition to the comparison group, the Compensation Committee utilizes market compensation data from Salary.com and CompAnalyst, a benefits and compensation consulting firm, for each of its executive positions. This data provides benchmark information for both base pay and total compensation for energy and utility companies in the $20 million to $3.0 billion size range. While the Compensation Committee has not established a specific target for each executive officer position, the Committee uses the comparison group and salary benchmark data to help ensure compensation is reasonably competitive in the industry and local job market.

How do we consider the results of the most recent shareholder advisory vote on executive compensation?

Annually, we ask our shareholders for a non-binding advisory vote on our overall executive compensation. The Board reviews and considers the voting results. In 2016, 96% of votes cast were in favor of the proposal. Since a substantial majority of our shareholders voted in favor of our executive compensation philosophy and program, the Board determined that we did not need to consider changing our overall approach to executive compensation.

Compensation Elements

Base Salary. Base salary is fixed compensation and is necessary to attract and retain talent. Base salaries are the only non-variable element of the Company's total compensation program. Base salaries are set to reflect each named executive officer's responsibilities, the impact of each named executive officer's position, and the contribution each named executive officer delivers to the Company. Salaries are determined after analyzing competitive levels in the market, using the Company's comparison group and the Salary.com and CompAnalyst compensation data for executives with comparable responsibilities and job scope. The Compensation Committee also considers internal equities among employees within the Company. Salary increases, if any, are based on individual performance, Company performance and market conditions. To gauge market conditions, the Compensation Committee evaluated the comparison group and market data and established recommended salary levels based on the named executive's experience, tenure, performance and potential. Based in part on the executive compensation benchmarking and the target levels for base salary set forth above, the Board, acting on the recommendation of Compensation Committee set the named executive officers' base salaries for 2016.

Annual Bonus Incentive Plan Compensation. The Annual Bonus Incentive Plan provides for a cash bonus based on the achievement of (1) certain qualitative goals for each named executive officer, which may be individual in nature or for the Company as a whole, and (2) targets for fiscal year earnings per share of the Company. The plan does not set a percentage amount by which the achievement of qualitative goals, on the one hand, and earnings targets, on the other hand, contribute towards the bonus amount. The Board, upon the recommendation of the Compensation Committee, makes a determination on such relative contributions at the time it determines and awards bonuses to named executive officers. For 2016, the percentage contribution towards the bonus amount of the achievement of qualitative goals ranged approximately from 55% to 80% among the named executive officers, versus approximately 45% to 20% in respect of the achievement of the earnings targets. The Compensation Committee evaluates achievement by each named executive officer of his or her qualitative goals and then recommends to the Board an amount of bonus to be awarded in respect of such achievement. The plan sets forth minimum, target and maximum earnings per share that may be achieved.

Key Employee Stock Option Plan of RGC Resources, Inc. The Company has a Key Employee Stock Option Plan, which is intended to provide the Company's executive officers and other key employees with long-term incentives and future rewards tied to the price of Resources' common shares over time.

This Plan requires each option's exercise price per share to equal the fair value of the Company's common shares as of the date of the grant. Under the terms of this Plan, the options become exercisable six months from the grant date and expire ten years subsequent to the grant date. There were 16,000 shares granted in 2016 to the named officers based on each officer's level of responsibility and the Compensation Committee's ongoing decision to link a portion of officer compensation directly to long-term corporate performance. The Compensation Committee did not use specific performance metrics in making these grants.

RGC Resources, Inc. Stock Bonus Plan. The Company has not made awards under the Stock Bonus Plan in recent years to the named executive officers. The plan, however, contains a policy that executive officers are encouraged to own a position in the Company's common shares equal to at least 50% of the value of their annual salary. Therefore, any officer with a stock ownership position less than 50% must use a minimum of 50% of the amount of any cash bonus (e.g., under the Annual Bonus Incentive Plan) to purchase common shares directly from the Company under the Stock Bonus Plan.

Equity Compensation Plan Summary Table

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity Comp. Plans approved by security holders	58,200	$ 20.25	110,397
Equity Comp. Plans not approved by security holders	—	—	—
Total	58,200	$ 20.25	110,307

Summary Compensation Table

Name	Year	Salary	Options Award[1]	Bonus	Change in Pension Value[2]	All Other Compensation	Total
John S. D'Orazio	2016	$ 363,300	$ 22,220	$ 84,500	$ 263,681	$ 34,323	$ 768,024
President & CEO	2015	325,353	24,600	76,900	106,405	36,418	569,676
	2014	272,557	22,150	38,000	140,043	41,087	513,837
Paul W. Nester	2016	207,353	20,200	39,000	41,494	33,410	341,457

VP, Treasurer,	2015	184,867	19,680	30,000	17,370	28,862		280,779
Secretary & CFO	2014	166,229	17,720	23,000	19,390	26,403		252,742
Robert L. Wells, II	2016	171,010	10,100	30,000	189,255	37,698		438,063
VP, Information	2015	161,957	12,300	27,000	77,973	33,766		312,996
Technology	2014	149,320	11,075	22,000	88,103	31,337		301,835
Carl J. Shockley, Jr.[3]	2016	172,566	12,120	30,500	181,826	32,312		429,324
VP - Operations,	2015	148,743	14,760	27,800	74,310	29,887		295,500
Roanoke Gas Co.	2014	—	—	—	—	—		—

Note 1: The 2016 Options Award values are based on 5,500 shares for Mr. D’Orazio, 5,000 shares for Mr. Nester, 3,000 shares for Mr. Shockley and 2,500 shares for Mr. Wells. The 2015 Options Award values are based on 5,000 shares for Mr. D’Orazio, 4,000 shares for Mr. Nester, 3,000 shares for Mr. Shockley and 2,500 shares for Mr. Wells. The 2014 Options Award values are based on 5,000 shares for Mr. D’Orazio, 4,000 shares for Mr. Nester, and 2,500 shares for Mr. Wells.

Note 2: The Change in Pension Value is an actuarial calculation and was not realized as compensation.

Note 3: Mr. Shockley became a named executive officer in 2015.

Discussion and Analysis of Summary Compensation

The changes in salary for our named executive officers primarily reflects their increasing responsibilities and significant contributions to the success of the Company in fiscal 2015. The Committee also considered competitive market forces and the comparison group in setting the 2016 salary levels. The significant increase in pension values are directly attributable to the impact of lower discount rates on the actuarially calculated benefit.

Bonus Table