

NATIONAL BANKSHARES INC  
Form DEF 14A  
March 16, 2009

March 16, 2009

Dear Fellow Stockholder:

We invite you to join us for the Annual Meeting of Stockholders of National Bankshares, Inc. on Tuesday, April 14, 2009, at 3:00 p.m. The Annual Meeting will be held at the Custom Catering Center at 902 Patrick Henry Drive, at the intersection of North Main Street in Blacksburg, Virginia. A map and directions to Custom Catering are on the reverse of this letter.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. We will be electing your directors, and we will report on the operations of Bankshares.

**YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN.** On behalf of the Board of Directors, I urge you to please sign, date and return the Proxy in the enclosed postage-paid envelope. Please return the Proxy as soon as possible, even if you now plan to attend the Annual Meeting. This will not prevent you from voting in person, but it will insure that your vote is counted if you are unable to attend the meeting.

Thank you for your interest and investment in National Bankshares, Inc.

Sincerely,

James G. Rakes  
Chairman  
President and  
Chief Executive Officer



**DIRECTIONS TO CUSTOM CATERING CENTER**

**FROM THE NORTH:**

Exit left from US Route 460 at first Blacksburg exit to Business Route 460 (North Main Street). Proceed south on North Main Street to traffic light just past Food Lion Plaza. Turn right at traffic light onto Patrick Henry Drive, and turn at first right into Custom Catering Center.

**FROM THE SOUTH:**

Exit right from US Route 460 Bypass at first Prices Fork Road exit (Downtown). Follow Prices Fork Road to its end at the intersection with North Main Street. Turn left onto North Main Street. Proceed north to second traffic light, at the intersection of Patrick Henry Drive. Turn left at Patrick Henry Drive, and turn at first right into Custom Catering Center.

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**NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS**

To the Stockholders of National Bankshares, Inc.:

This is your notice that the 2009 Annual Meeting of Stockholders of National Bankshares, Inc. ("Bankshares") will be held at the Custom Catering Center at 902 Patrick Henry Drive, at the intersection of North Main Street in Blacksburg, Virginia, on Tuesday, April 14, 2009, at 3:00 p.m. The Meeting is for the purpose of considering and acting upon:

1. The election of three Class 1 directors for a term of three years each.
2. The transaction of such other business as may properly come before the Meeting or any adjournments of the Meeting.

NOTE: The Board of Directors is not aware of any other business to come before the Meeting.

Only stockholders of record at the close of business on February 27, 2009 are entitled to receive notice of and to vote at the Meeting, or at any adjournments of the Meeting.

Your attention is directed to the Proxy Statement accompanying this Notice for a more complete statement of the matters proposed to be acted upon at the Meeting.

To assure that your shares are represented at the Meeting, please complete, date, sign and mail promptly the enclosed proxy, for which a return envelope is provided. The proxy will not be used if you attend and vote in person at the Meeting. You may revoke your proxy prior to actual voting of the proxy.

BY ORDER OF THE BOARD OF DIRECTORS

Marilyn B. Buhyoff  
Secretary and Counsel

Blacksburg, Virginia

March 16, 2009

**PROXY STATEMENT**

**OF**

**NATIONAL BANKSHARES, INC.**

**101 HUBBARD STREET**

**BLACKSBURG, VA 24060**

**P.O. BOX 90002**

**BLACKSBURG, VA 24062-9002**

**540/951-6300**

[www.nationalbankshares.com](http://www.nationalbankshares.com)

[www.nationalbanksharesproxy.com](http://www.nationalbanksharesproxy.com)

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**ANNUAL MEETING OF STOCKHOLDERS**

**TUESDAY, APRIL 14, 2009**

This Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors (the "Board") of National Bankshares, Inc. ("NBI", "Bankshares" or the "Company") to be used at the 2009 Annual Meeting of Stockholders to be held at the Custom Catering Center at 902 Patrick Henry Drive, at the intersection of North Main Street, Blacksburg, Virginia, at 3:00 p.m., on Tuesday, April 14, 2009, and at any adjournments of the Meeting. The approximate mailing date of the Proxy Statement, the Notice of Annual Meeting and the accompanying Proxy is March 16, 2009.

**REVOCATION OF PROXIES**

Stockholders who sign and send in their proxies retain the right to revoke them at any time prior to the actual voting of the proxies at the Stockholders Meeting. Proxies may be revoked by written notice received prior to the Meeting, by attending the Meeting and voting in person or by submitting a signed proxy with a later date. A written notice revoking a previously executed proxy should be sent to National Bankshares, Inc., P.O. Box 90002, Blacksburg, Virginia 24062-9002, Attention: James G. Rakes. Unless revoked, the shares represented by properly executed proxies will be voted at the Meeting according to the instructions contained in the proxy. Where no instructions are given, proxies will be voted *for* the nominees for directors set forth in Proposal No. 1.

An Annual Report to Stockholders, including the financial statements for the year ended December 31, 2008, is being mailed to you at the same time as this Proxy Statement, but should not be considered proxy solicitation material.

**VOTING SECURITIES AND STOCK OWNERSHIP**

As of March 16, 2009, Bankshares had 6,929,474 shares of common stock (\$1.25 par value) issued and outstanding. Each of the shares is entitled to one vote at the Annual Meeting. Only those stockholders of record at the close of business on February 27, 2009 will be entitled to

vote at the Meeting or at any adjournments.

A majority of votes entitled to be cast on matters to be considered at the Annual Meeting constitutes a quorum. If a share is represented for any purpose at the Annual Meeting, it will be considered to be present for purposes of establishing a quorum. Abstentions and shares held of record by a broker or its nominee ("broker shares") which are voted on any matter are included in determining the number of votes present or represented at the Annual Meeting. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present. If a quorum is established, directors will be elected by a plurality of votes cast by shares entitled to vote at the Annual Meeting. Votes that are withheld and broker shares that are not voted on any matter will not be included in determining the number of votes cast.

**STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS**

As of February 27, 2009, Bankshares knows of no single person or group who is the beneficial owner of more than 5% of the outstanding common stock of the Company.

**STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS**

The following table presents the beneficial ownership of National Bankshares, Inc. common stock as of February 27, 2009, by each of the directors, and each executive officer named in the Summary Compensation Table and all directors and executive officers as a group. Except as otherwise noted, the named individual has sole voting and investment power with respect to the stock.

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Name of Beneficial Owner	Shares of Common Stock Beneficially Owned as of February 27, 2009	Percentage Of Class	
Lawrence J. Ball	3,500		*
Jack W. Bowling	3,200		*
Marilyn B. Buhyoff	41,251	1.	*
F. Brad Denardo	52,984	2.	*
Jack H. Harry	100,410	3. 1.45	%
Jack M. Lewis	6,056		*
Mary G. Miller	2,000		*
William A. Peery	31,410	4.	*
James G. Rakes	121,601	5. 1.75	%
Glenn P. Reynolds	4,534	6.	*
James M. Shuler	26,801	7.	*
David K. Skeens	4,537	8.	*
All Nominees, Current Directors and Executive Officers as a Group (12 persons)	398,284	5.75	%

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

<sup>1</sup>Includes 898 shares owned jointly with spouse, 10,853 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan and 29,500 shares in vested options which may be exercised as of February 27, 2009.

<sup>2</sup>Includes 4,534 shares owned jointly with spouse, 17,872 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan and 24,000 shares in vested options which may be exercised as of February 27, 2009.

<sup>3</sup>Includes 28,342 shares owned by spouse, 14,950 shares owned jointly with spouse, and 790 shares owned jointly with son.

<sup>4</sup> Includes 72 shares owned as custodian for son, 3,630 shares owned by a controlled corporation and 21,900 shares owned as Trustee.

<sup>5</sup> Includes 11,200 shares owned jointly with spouse, 30,095 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan and 60,000 shares in vested options which may be exercised as of February 27, 2009.

<sup>6</sup> Includes 1,058 shares owned by spouse.

<sup>7</sup> Includes 4,053 shares owned by spouse and 426 shares owned jointly with spouse.

<sup>8</sup>Mr. Skeens was named as Treasurer and Chief Financial Officer of National Bankshares, Inc. on January 14, 2009. Includes 4,475 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Based upon the written representations of our directors and executive officers, we believe that all of our directors and executive officers complied with the reporting requirements of Section 16(a) of the Securities Act of 1934.

**PROPOSAL NO. 1 - ELECTION OF DIRECTORS**

Bankshares' articles of incorporation provide that the directors will be divided into three classes (1, 2 and 3) with each class as nearly equal in number as possible and the term of office of each class ending in successive years. The articles of incorporation currently also provide that the number of directors shall be set by the bylaws, but shall not be less than nine, nor more than twenty-six. For the purpose of the election of directors at the Annual Meeting, the number of directors set forth in the bylaws is nine. The current term of office of the Class 1 directors expires at this 2009 Annual Meeting of Stockholders. The terms of Class 2 and Class 3 directors will expire in 2010 and 2011, respectively.

The Board of Directors has nominated the three serving Class 1 directors, Lawrence J. Ball, Mary G. Miller and Glenn P. Reynolds, to serve a three-year term to expire at the Annual Meeting of Stockholders in 2012.

It is the intention of the persons named as proxies, unless instructed otherwise, to vote for the election of the three nominees for Class 1 director. Each nominee has agreed to serve if elected. If any of the nominees is unexpectedly unable to serve, the shares represented by all valid proxies will be voted for the remaining nominees and any other person or persons who may be designated by the Board. At this time, the Board knows of no reason why any nominee might be unable to serve.

The following information is provided with respect to the three nominees to serve as Class 1 director and the



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six incumbent directors who will be continuing in office following the Annual Meeting. All information is provided as of February 27, 2009. No director or nominee is related by blood, marriage or adoption to any other director, nominee or executive officer. No director or nominee serves as a director of any company which has a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, or is subject to the requirements of Section 15(d) of the Exchange Act, or of any company registered as an investment company under the Investment Company Act of 1940. Two directors, Mr. Rakes and Dr. Shuler, also currently serve as a director of one or both of the wholly owned subsidiaries of Bankshares, the National Bank of Blacksburg (“NBB”), and National Bankshares Financial Services, Inc. (“NBFS”). Each director and nominee, except for Mr. Rakes, has been determined to be independent by the Board of Directors, using the definition for independence of directors that is used for determining compliance with the applicable listing standards for the NASDAQ Stock Market, the national securities exchange on which Bankshares common stock is listed. (See also “Director Independence and Certain Transactions with Officers and Directors”).

### **Name and Age;**

### **Principal Occupation and Business Experience**

#### **Director of Bankshares Since**

**(for the past five years unless otherwise noted)**

#### **Nominees**

#### **Class 1 Directors**

#### **(Serving until 2012 Annual Meeting )**

Lawrence J. Ball (54)

President, Moog Components Group (High Tech Manufacturing); prior thereto Vice President and General Manager, Moog Components Group; prior thereto

2006

President, Northrop Grumman Poly-Scientific

Mary G. Miller (58)

Blacksburg, VA  
President, Interactive Design & Development, Inc. (Training Software Development and Application) Blacksburg, VA

2003

Glenn P. Reynolds (56)

President, Reynolds Architects Incorporated, (Architect), Blacksburg, VA

2006

#### **Directors Continuing in Office**

#### **Class 2 Directors**

#### **(Serving until 2010 Annual Meeting)**

Jack W. Bowling (62)

President, H.T. Bowling, Inc. (Construction – Grading, Excavation and Road Building) Radford, VA

2007

Jack M. Lewis (65)

President, New River Community College; prior thereto

2004

Dean of New River Community College

James G. Rakes (64)

Dublin, VA  
Chairman, President and CEO of Bankshares and NBB

1986

Chairman, President and Treasurer of NBFS,

NBB and NBFS Board Member

Blacksburg, VA

#### **Class 3 Directors**

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**(Serving until 2011 Annual Meeting)**

Jack H. Harry (71)	President, Harry Enterprises, Inc. (Investment and Rental Real Estate)
2005	Tazewell, VA
William A. Peery (57)	President, Cargo Oil Co., Inc. (Convenience Stores and Petroleum Sales); prior thereto, Corporate Officer, Cargo Oil, Inc.
2005	Tazewell, VA
James M. Shuler (65)	Member, Virginia House of Delegates
2002	Retired; prior thereto President, Companion
	Animal Clinic, Inc. (Veterinarian)
	NBB Board Member
	Blacksburg, VA

**The Board of Directors recommends that the stockholders vote “For” all of the nominees for Class 1 director.**

**BOARD OF DIRECTORS MEETINGS,****COMMITTEES, COMPENSATION, ATTENDANCE AND****COMMUNICATIONS WITH DIRECTORS****Board of Directors Meetings**

The Board of Directors of Bankshares meets monthly. In 2008, there were twelve regular meetings and one special meeting.

**Board Committees**

The Bankshares Board has standing Executive, Audit, Compensation and Nominating Committees. Mr. Rakes is the chairman of the Executive Committee, and Dr. Lewis and Dr. Shuler serve on the Committee. The Executive Committee met once in 2008. The Audit Committee, which is chaired by Dr. Lewis, is made up of Mr. Ball, Mr. Bowling and Mr. Harry. The Audit Committee had four meetings in 2008. In 2008 the Compensation Committee was comprised of Mr. Ball, Mr. Bowling, Mr. Harry, Dr. Lewis, Dr. Miller, Mr. Peery and Mr. Reynolds. Dr. Shuler serves as its chairman. The Compensation Committee met three times in 2008. Dr. Miller is the chairman of the Nominating Committee, and Mr. Peery, Mr. Reynolds and Dr. Shuler are its members. The Nominating Committee did not meet in 2008.

**Board Compensation**

In 2008, the members of the NBI Board of Directors received \$800 for each regular or special Board meeting they attend. They were paid \$400 for each committee meeting. Directors were also paid an annual retainer fee of \$9,000. The Chairmen of the Audit and Compensation Committees each received an additional \$1,200 annual retainer. NBI Directors receive no other forms of compensation.

**Directors Compensation Table<sup>(1)</sup>**

	Fees Earned or Paid in		
	Cash (\$)	Other (\$)	Total (\$)
Lawrence J. Ball	17,800	---	17,800
Jack W. Bowling	20,200	---	20,200
Jack H. Harry	21,000	---	21,000
Jack M. Lewis	20,200	---	20,200
Mary G. Miller	19,800	---	19,800
William A. Peery	19,000	---	19,000
Glenn P. Reynolds	19,800	---	19,800
James M. Shuler	20,600	17,300	(2) 37,900

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- (1) Directors fees paid to Mr. Rakes are disclosed in the Summary Compensation Table in "Executive Compensation".
- (2) Represents fees paid to Dr. Shuler for his service on the Board of Directors of NBB in 2008.

### Director Independence and Certain Transactions with Officers and Directors

As has been mentioned, each director of Bankshares, except for Mr. Rakes, is independent, as defined by the listing standards for the NASDAQ Stock Market, the national securities exchange on which Bankshares common stock is listed. In determining that each director meets the NASDAQ Stock Market's standards for independence, the Board of Directors recognized that NBB, and prior to its 2006 merger with NBB, the Company's other bank subsidiary Bank of Tazewell County (BTC), extends credit in the ordinary course of business to Bankshares' directors and executive officers. Extensions of credit are also made to business organizations and persons with whom Bankshares' directors and executive officers are associated or related. These extensions of credit are made at interest rates and with the same requirements as to collateral as prevailing for comparable transactions with the general public at the time credit is extended. In the opinion of bank management, none of the outstanding transactions with directors and executive officers

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involve a greater than normal risk of collectibility or present other unfavorable features.

In determining that directors meet the defined standard of independence, the Board also considered that Mr. Reynolds regularly provides architectural design and consulting services to Bankshares and NBB, which do not exceed the formal disclosure threshold of \$120,000 per year. Likewise, the Company in which Dr. Miller is a principal has done website design and consulting for NBB. These services are also valued below the \$120,000 annual reporting threshold. There were no reportable related person transactions during 2008.

### Board Attendance

During 2008, each incumbent director attended 75% or more of the total number of meetings of the Board of Directors of Bankshares and of the Board committees on which he or she served. The Board does not have a formal policy regarding directors' attendance at the Annual Meeting of Stockholders. In 2008, all NBI directors attended the Annual Meeting, except for Mr. Ball who was traveling on business.

### Communications with Directors

Stockholders wishing to communicate with the Board of Directors or with specified individual directors should do so in writing mailed to National Bankshares, Inc., P. O. Box 90002, Blacksburg, Virginia 24062-9002, Attention: Board of Directors. All stockholder communications are forwarded to the Board.

## **COMPENSATION DISCUSSION AND ANALYSIS**

*What are the objectives of the Company's compensation program for its named executive officers?*

National Bankshares, Inc. has four goals for its compensation program for named executive officers. In 2008, these officers were: Chairman, President & CEO James G. Rakes, Interim Treasurer and Executive Vice President F. Brad Denardo and Secretary and Counsel Marilyn B. Buhyoff. Former Treasurer, J. Robert Buchanan, resigned and left the Company on May 23, 2008.

- To offer salaries and bonuses that fairly reward executive officers for their individual contributions in meeting short-term and long-term corporate strategic and financial goals.
- To offer stock-based compensation that directly aligns the financial interest of executive officers with the Company's success and stockholder value.
- To offer retirement and post-retirement benefits which incent executive officers to remain in leadership roles and which recognize and reward long tenure with the Company.