

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2017

<i>Commission File Number</i>	<i>Exact name of registrant as specified in its charter and principal office address and telephone number</i>	<i>State of Incorporation</i>	<i>I.R.S. Employer Identification No.</i>
001-37976	Southwest Gas Holdings, Inc. 5241 Spring Mountain Road Post Office Box 98510 Las Vegas, Nevada 89193-8510 (702) 876-7237	California	81-3881866
1-7850	Southwest Gas Corporation 5241 Spring Mountain Road Post Office Box 98510 Las Vegas, Nevada 89193-8510 (702) 876-7237	California	88-0085720

Indicate by check mark whether each 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 No

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether each registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Southwest Gas Holdings, Inc.:

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Southwest Gas Corporation:

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Southwest Gas Holdings, Inc. Common Stock, \$1 Par Value, 47,583,119 shares as of July 28, 2017.

All of the outstanding shares of common stock (\$1 par value) of Southwest Gas Corporation were held by Southwest Gas Holdings, Inc. as of January 1, 2017.

SOUTHWEST GAS CORPORATION MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION (H)(1)(a) and (b) OF FORM 10-Q AND IS THEREFORE FILING THIS REPORT WITH THE REDUCED DISCLOSURE FORMAT AS PERMITTED BY GENERAL INSTRUCTION H(2).

FILING FORMAT

This quarterly report on Form 10-Q is a combined report being filed by two separate registrants: Southwest Gas Holdings, Inc. and Southwest Gas Corporation. Except where the content clearly indicates otherwise, any reference in the report to “we,” “us” or “our” is to the holding company or the consolidated entity of Southwest Gas Holdings, Inc. and all of its subsidiaries, including Southwest Gas Corporation, which is a distinct registrant that is a wholly owned subsidiary of Southwest Gas Holdings, Inc. Information contained herein relating to any individual company is filed by such company on its own behalf. Each company makes representations only as to itself and makes no other representation whatsoever as to any other company.

Part I—Financial information in this Quarterly Report on Form 10-Q includes separate financial statements (i.e. balance sheets, statements of income, statements of comprehensive income, and statements of cash flows) for Southwest Gas Holdings, Inc. and Southwest Gas Corporation, in that order. The Notes to Consolidated Financial Statements are presented on a combined basis for both entities. All Items other than Part I – Item 1 are combined for the reporting companies.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except par value)
(Unaudited)

	JUNE 30, 2017	DECEMBER 31, 2016
ASSETS		
Utility plant:		
Gas plant	\$ 6,349,303	\$ 6,193,564
Less: accumulated depreciation	(2,202,909)	(2,172,966)
Acquisition adjustments, net	119	196
Construction work in progress	111,041	111,177
Net utility plant	<u>4,257,554</u>	<u>4,131,971</u>
Other property and investments	362,891	342,343
Current assets:		
Cash and cash equivalents	29,702	28,066
Accounts receivable, net of allowances	281,882	285,145
Accrued utility revenue	33,600	76,200
Income taxes receivable, net	6,253	4,455
Deferred purchased gas costs	5,956	2,608
Prepays and other current assets	126,192	136,833
Total current assets	<u>483,585</u>	<u>533,307</u>
Noncurrent assets:		
Goodwill	143,583	139,983
Deferred income taxes	1,365	1,288
Deferred charges and other assets	416,261	432,234
Total noncurrent assets	<u>561,209</u>	<u>573,505</u>
Total assets	<u>\$ 5,665,239</u>	<u>\$ 5,581,126</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$1 par (authorized—60,000,000 shares; issued and outstanding—47,583,119 and 47,482,068 shares)	\$ 49,213	\$ 49,112
Additional paid-in capital	911,095	903,123
Accumulated other comprehensive income (loss), net	(44,962)	(48,008)
Retained earnings	801,222	759,263
Total Southwest Gas Holdings, Inc. equity	1,716,568	1,663,490
Noncontrolling interest	(2,312)	(2,217)
Total equity	1,714,256	1,661,273
Redeemable noncontrolling interest	20,149	22,590
Long-term debt, less current maturities	1,685,698	1,549,983
Total capitalization	<u>3,420,103</u>	<u>3,233,846</u>
Current liabilities:		
Current maturities of long-term debt	27,236	50,101
Short-term debt	2,500	—
Accounts payable	135,738	184,669
Customer deposits	71,195	72,296
Income taxes payable	—	1,909
Accrued general taxes	40,545	42,921
Accrued interest	17,150	17,939
Deferred purchased gas costs	20,628	90,476
Other current liabilities	175,043	168,064
Total current liabilities	<u>490,035</u>	<u>628,375</u>
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits	891,217	840,653
Accumulated removal costs	310,000	308,000
Other deferred credits and other long-term liabilities	553,884	570,252
Total deferred income taxes and other credits	1,755,101	1,718,905
Total capitalization and liabilities	<u>\$ 5,665,239</u>	<u>\$ 5,581,126</u>

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016	2017	2016
Operating revenues:						
Gas operating revenues	\$ 260,162	\$ 255,648	\$ 722,764	\$ 780,748	\$ 1,263,428	\$ 1,395,629
Construction revenues	300,307	292,100	492,442	498,248	1,133,272	1,074,168
Total operating revenues	560,469	547,748	1,215,206	1,278,996	2,396,700	2,469,797
Operating expenses:						
Net cost of gas sold	69,421	71,416	216,300	285,016	328,405	486,048
Operations and maintenance	103,060	98,744	212,210	199,541	414,393	397,886
Depreciation and amortization	58,082	72,559	130,560	147,919	271,773	283,608
Taxes other than income taxes	14,497	12,987	29,279	27,000	54,655	50,982
Construction expenses	272,001	263,926	463,957	457,308	1,031,072	955,332
Total operating expenses	517,061	519,632	1,052,306	1,116,784	2,100,298	2,173,856
Operating income	43,408	28,116	162,900	162,212	296,402	295,941
Other income and (expenses):						
Net interest deductions	(18,655)	(18,221)	(37,369)	(35,942)	(75,087)	(72,127)
Other income (deductions)	2,047	2,470	5,912	4,191	11,190	4,636
Total other income and (expenses)	(16,608)	(15,751)	(31,457)	(31,751)	(63,897)	(67,491)
Income before income taxes	26,800	12,365	131,443	130,461	232,505	228,450
Income tax expense	8,679	3,266	44,317	46,007	76,778	81,508
Net income	18,121	9,099	87,126	84,454	155,727	146,942
Net income (loss) attributable to noncontrolling interests	257	156	(46)	65	903	1,168
Net income attributable to Southwest Gas Holdings, Inc.	\$ 17,864	\$ 8,943	\$ 87,172	\$ 84,389	\$ 154,824	\$ 145,774
Basic earnings per share	\$ 0.38	\$ 0.19	\$ 1.83	\$ 1.78	\$ 3.26	\$ 3.08
Diluted earnings per share	\$ 0.37	\$ 0.19	\$ 1.82	\$ 1.77	\$ 3.24	\$ 3.06
Dividends declared per share	\$ 0.495	\$ 0.450	\$ 0.990	\$ 0.900	\$ 1.890	\$ 1.710
Average number of common shares outstanding	47,571	47,473	47,550	47,455	47,516	47,347
Average shares outstanding (assuming dilution)	47,884	47,811	47,874	47,787	47,857	47,693

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Thousands of dollars)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016	2017	2016
Net income	\$ 18,121	\$ 9,099	\$87,126	\$ 84,454	\$ 155,727	\$ 146,942
Other comprehensive income (loss), net of tax						
Defined benefit pension plans:						
Net actuarial gain (loss)	—	—	—	—	(14,118)	(18,922)
Amortization of prior service cost	207	207	414	414	828	828
Amortization of net actuarial loss	3,944	4,194	7,888	8,390	16,279	19,048
Regulatory adjustment	(3,556)	(3,796)	(7,112)	(7,592)	(2,982)	(1,436)
Net defined benefit pension plans	595	605	1,190	1,212	7	(482)
Forward-starting interest rate swaps:						
Amounts reclassified into net income	518	519	1,036	1,038	2,073	2,074
Net forward-starting interest rate swaps	518	519	1,036	1,038	2,073	2,074
Foreign currency translation adjustments	629	70	849	852	158	(39)
Total other comprehensive income, net of tax	1,742	1,194	3,075	3,102	2,238	1,553
Comprehensive income	19,863	10,293	90,201	87,556	157,965	148,495
Comprehensive income (loss) attributable to noncontrolling interests	279	159	(17)	94	908	1,166
Comprehensive income attributable to Southwest Gas Holdings, Inc.	\$ 19,584	\$ 10,134	\$90,218	\$ 87,462	\$ 157,057	\$ 147,329

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)
(Unaudited)

	SIX MONTHS ENDED JUNE 30		TWELVE MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	\$ 87,126	\$ 84,454	\$ 155,727	\$ 146,942
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	130,560	147,919	271,773	283,608
Deferred income taxes	47,836	45,916	70,652	90,805
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	3,545	52,907	(19,266)	7,039
Accrued utility revenue	42,600	42,200	(1,100)	(700)
Deferred purchased gas costs	(73,196)	84,289	(111,627)	102,834
Accounts payable	(50,447)	(33,358)	4,606	1,622
Accrued taxes	(6,100)	(12,121)	32,361	(28,140)
Other current assets and liabilities	20,390	7,761	(14,803)	22,696
Gains on sale	(1,427)	(2,742)	(5,833)	(3,281)
Changes in undistributed stock compensation	7,731	3,514	9,673	4,916
AFUDC	(1,109)	(1,282)	(2,116)	(3,157)
Changes in other assets and deferred charges	(11,521)	223	5,216	1,296
Changes in other liabilities and deferred credits	2,204	(2,502)	(13,741)	5,407
Net cash provided by operating activities	<u>198,192</u>	<u>417,178</u>	<u>381,522</u>	<u>631,887</u>
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(262,234)	(264,872)	(526,893)	(549,232)
Acquisition of businesses, net of cash acquired	—	(17,000)	—	(17,000)
Changes in customer advances	(1,430)	2,152	4,318	10,763
Miscellaneous inflows	6,905	4,126	15,818	7,588
Net cash used in investing activities	<u>(256,759)</u>	<u>(275,594)</u>	<u>(506,757)</u>	<u>(547,881)</u>
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	(96)	487	(111)	15,170
Dividends paid	(44,949)	(40,583)	(87,683)	(78,830)
Centuri distribution to redeemable noncontrolling interest	(204)	(99)	(544)	(198)
Issuance of long-term debt, net	80,579	96,128	408,397	138,779
Retirement of long-term debt	(60,041)	(52,966)	(262,348)	(162,530)
Change in credit facility and commercial paper	87,000	(147,500)	89,500	(27,500)
Change in short-term debt	2,500	(18,000)	2,500	—
Principal payments on capital lease obligations	(573)	(835)	(1,092)	(1,533)
Withholding remittance—share-based compensation	(3,120)	(1,968)	(3,271)	(3,766)
Other	(1,036)	(124)	(2,481)	451
Net cash provided by (used in) financing activities	<u>60,060</u>	<u>(165,460)</u>	<u>142,867</u>	<u>(119,957)</u>
Effects of currency translation on cash and cash equivalents	143	5	(56)	(832)
Change in cash and cash equivalents	1,636	(23,871)	17,576	(36,783)
Cash and cash equivalents at beginning of period	28,066	35,997	12,126	48,909
Cash and cash equivalents at end of period	<u>\$ 29,702</u>	<u>\$ 12,126</u>	<u>\$ 29,702</u>	<u>\$ 12,126</u>
Supplemental information:				
Interest paid, net of amounts capitalized	\$ 35,182	\$ 33,224	\$ 69,398	\$ 65,634
Income taxes paid (received)	3,043	4,737	(20,726)	19,483

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of dollars)
(Unaudited)

	JUNE 30, 2017	DECEMBER 31, 2016
ASSETS		
Utility plant:		
Gas plant	\$ 6,349,303	\$ 6,193,564
Less: accumulated depreciation	(2,202,909)	(2,172,966)
Acquisition adjustments, net	119	196
Construction work in progress	111,041	111,177
Net utility plant	<u>4,257,554</u>	<u>4,131,971</u>
Other property and investments	<u>113,326</u>	<u>108,569</u>
Current assets:		
Cash and cash equivalents	22,444	19,024
Accounts receivable, net of allowances	74,361	111,845
Accrued utility revenue	33,600	76,200
Income taxes receivable, net	4,902	4,455
Deferred purchased gas costs	5,956	2,608
Receivable from parent	288	—
Prepays and other current assets	108,990	126,363
Total current assets	<u>250,541</u>	<u>340,495</u>
Noncurrent assets:		
Goodwill	10,095	10,095
Deferred charges and other assets	399,628	410,625
Discontinued operations—construction services—assets	—	579,371
Total noncurrent assets	<u>409,723</u>	<u>1,000,091</u>
Total assets	<u>\$ 5,031,144</u>	<u>\$ 5,581,126</u>
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock	\$ 49,112	\$ 49,112
Additional paid-in capital	904,715	897,346
Accumulated other comprehensive income (loss), net	(43,413)	(45,639)
Retained earnings	631,226	767,061
Total Southwest Gas Corporation equity	1,541,640	1,667,880
Discontinued operations—construction services non-owner equity	—	15,983
Long-term debt, less current maturities	1,462,552	1,375,080
Total capitalization	<u>3,004,192</u>	<u>3,058,943</u>
Current liabilities:		
Current maturities of long-term debt	—	25,000
Accounts payable	82,522	138,229
Customer deposits	71,195	72,296
Accrued general taxes	40,545	42,921
Accrued interest	16,826	17,395
Deferred purchased gas costs	20,628	90,476
Payable to parent	2,262	—
Other current liabilities	98,681	95,999
Total current liabilities	<u>332,659</u>	<u>482,316</u>
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits, net	855,253	806,109
Accumulated removal costs	310,000	308,000
Other deferred credits and other long-term liabilities	529,040	545,143
Discontinued operations—construction services—liabilities	—	380,615
Total deferred income taxes and other credits	<u>1,694,293</u>	<u>2,039,867</u>
Total capitalization and liabilities	<u>\$ 5,031,144</u>	<u>\$ 5,581,126</u>

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016	2017	2016
Continuing operations:						
Gas operating revenues	\$ 260,162	\$ 255,648	\$ 722,764	\$ 780,748	\$ 1,263,428	\$ 1,395,629
Operating expenses:						
Net cost of gas sold	69,421	71,416	216,300	285,016	328,405	486,048
Operations and maintenance	102,501	98,744	211,180	199,541	413,363	397,886
Depreciation and amortization	46,254	57,232	107,449	117,977	222,935	224,845
Taxes other than income taxes	14,497	12,987	29,279	27,000	54,655	50,982
Total operating expenses	232,673	240,379	564,208	629,534	1,019,358	1,159,761
Operating income	27,489	15,269	158,556	151,214	244,070	235,868
Other income and (expenses):						
Net interest deductions	(16,991)	(16,561)	(34,201)	(32,791)	(68,407)	(65,041)
Other income (deductions)	2,052	2,436	5,663	4,191	9,748	3,569
Total other income and (expenses)	(14,939)	(14,125)	(28,538)	(28,600)	(58,659)	(61,472)
Income from continuing operations before income taxes	12,550	1,144	130,018	122,614	185,411	174,396
Income tax expense (benefit)	3,028	(1,214)	43,558	42,673	59,469	61,094
Income from continuing operations	9,522	2,358	86,460	79,941	125,942	113,302
Discontinued operations—construction services:						
Income before income taxes	—	11,221	—	7,847	45,669	54,054
Income tax expense	—	4,480	—	3,334	16,550	20,414
Income	—	6,741	—	4,513	29,119	33,640
Noncontrolling interests	—	156	—	65	949	1,168
Income—discontinued operations	—	6,585	—	4,448	28,170	32,472
Net income	\$ 9,522	\$ 8,943	\$ 86,460	\$ 84,389	\$ 154,112	\$ 145,774

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016	2017	2016
Continuing operations:						
Net income from continuing operations	\$ 9,522	\$ 2,358	\$86,460	\$ 79,941	\$ 125,942	\$ 113,302
Other comprehensive income (loss), net of tax						
Defined benefit pension plans:						
Net actuarial gain (loss)	—	—	—	—	(14,118)	(18,922)
Amortization of prior service cost	207	207	414	414	828	828
Amortization of net actuarial loss	3,944	4,194	7,888	8,390	16,279	19,048
Regulatory adjustment	(3,556)	(3,796)	(7,112)	(7,592)	(2,982)	(1,436)
Net defined benefit pension plans	595	605	1,190	1,212	7	(482)
Forward-starting interest rate swaps:						
Amounts reclassified into net income	518	519	1,036	1,038	2,073	2,074
Net forward-starting interest rate swaps	518	519	1,036	1,038	2,073	2,074
Total other comprehensive income, net of tax from continuing operations	1,113	1,124	2,226	2,250	2,080	1,592
Comprehensive income from continuing operations	10,635	3,482	88,686	82,191	128,022	114,894
Discontinued operations—construction services:						
Net income	—	6,585	—	4,448	28,170	32,472
Foreign currency translation adjustments	—	70	—	852	(691)	(39)
Comprehensive income	—	6,655	—	5,300	27,479	32,433
Comprehensive income (loss) attributable to noncontrolling interests	—	3	—	29	(24)	(2)
Comprehensive income attributable to discontinued operations— construction services	—	6,652	—	5,271	27,503	32,435
Comprehensive income	\$ 10,635	\$ 10,134	\$88,686	\$ 87,462	\$ 155,525	\$ 147,329

The accompanying notes are an integral part of these statements.

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Thousands of dollars)
(Unaudited)

	SIX MONTHS ENDED JUNE 30		TWELVE MONTHS ENDED JUNE 30	
	2017	2016	2017	2016
CASH FLOW FROM OPERATING ACTIVITIES:				
Net Income	\$ 86,460	\$ 84,454	\$ 155,061	\$ 146,942
Income (loss) from discontinued operations	—	4,513	29,119	33,640
Income from continuing operations	86,460	79,941	125,942	113,302
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	107,449	117,977	222,935	224,845
Deferred income taxes	46,874	40,592	74,241	83,140
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	37,484	79,188	(973)	22,324
Accrued utility revenue	42,600	42,200	(1,100)	(700)
Deferred purchased gas costs	(73,196)	84,289	(111,627)	102,834
Accounts payable	(55,707)	(42,681)	3,157	(3,529)
Accrued taxes	(2,823)	(6,456)	23,024	(17,334)
Other current assets and liabilities	24,265	4,791	(14,022)	11,614
Changes in undistributed stock compensation	6,931	3,514	8,873	4,916
AFUDC	(1,109)	(1,282)	(2,116)	(3,157)
Changes in other assets and deferred charges	(11,801)	49	4,761	603
Changes in other liabilities and deferred credits	1,695	(2,502)	(14,250)	5,407
Net cash provided by operating activities	<u>209,122</u>	<u>399,620</u>	<u>318,845</u>	<u>544,265</u>
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(224,085)	(214,424)	(466,780)	(474,596)
Changes in customer advances	(1,430)	2,152	4,318	10,763
Miscellaneous inflows	1,354	1,790	2,546	3,660
Dividends received	—	2,801	9,660	5,602
Net cash used in investing activities	<u>(224,161)</u>	<u>(207,681)</u>	<u>(450,256)</u>	<u>(454,571)</u>
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	—	487	(15)	15,170
Dividends paid	(39,896)	(40,583)	(82,630)	(78,830)
Issuance of long-term debt, net	—	—	296,469	—
Retirement of long-term debt	(25,000)	—	(149,855)	(20,000)
Change in credit facility and commercial paper	87,000	(147,500)	89,500	(27,500)
Change in short-term debt	—	(18,000)	—	—
Withholding remittance—share-based compensation	(3,120)	(1,968)	(3,271)	(3,766)
Other	(525)	(124)	(1,970)	502
Net cash provided by (used in) financing activities	<u>18,459</u>	<u>(207,688)</u>	<u>148,228</u>	<u>(114,424)</u>
Net cash provided by discontinued operating activities	—	17,558	73,607	87,622
Net cash used in discontinued investing activities	—	(67,913)	(23,903)	(93,310)
Net cash provided by (used in) discontinued financing activities	—	42,228	(46,962)	(5,533)
Effects of currency translation on cash and cash equivalents	—	5	(199)	(832)
Change in cash and cash equivalents	3,420	(23,871)	19,360	(36,783)
Change in cash and cash equivalents of discontinued operations included in discontinued operations construction services assets	—	8,122	(2,543)	12,053
Change in cash and cash equivalents of continuing operations	3,420	(15,749)	16,817	(24,730)
Cash and cash equivalents at beginning of period	19,024	21,376	5,627	30,357
Cash and cash equivalents at end of period	<u>\$ 22,444</u>	<u>\$ 5,627</u>	<u>\$ 22,444</u>	<u>\$ 5,627</u>
Supplemental information:				
Interest paid, net of amounts capitalized	<u>\$ 32,205</u>	<u>\$ 30,485</u>	<u>\$ 63,221</u>	<u>\$ 60,101</u>
Income taxes paid (received)	<u>\$ 19</u>	<u>\$ 1,893</u>	<u>\$ (32,885)</u>	<u>\$ (3,063)</u>

The accompanying notes are an integral part of these statements.

Note 1 – Nature of Operations and Basis of Presentation

Nature of Operations. Southwest Gas Holdings, Inc. is a holding company, owning all of the shares of common stock of Southwest Gas Corporation and 96.6% of the common stock of Centuri Construction Group Inc. In January 2017, a previously contemplated and approved reorganization under a holding company structure was made effective. The reorganization is designed to provide further separation between regulated and unregulated businesses, and to provide additional financing flexibility. Coincident with the effective date of the reorganization, existing shareholders of Southwest Gas Corporation became shareholders of Southwest Gas Holdings, Inc., on a one-for-one basis, with the same number of shares and same ownership percentage as they held immediately prior to the reorganization. At the same time, Southwest Gas Corporation and Centuri Construction Group Inc. (“Centuri” or the “construction services” segment) each became subsidiaries of the publicly traded holding company; whereas, historically, Centuri had been a direct subsidiary of Southwest Gas Corporation.

Southwest Gas Corporation (“Southwest” or the “natural gas operations segment”) is engaged in the business of purchasing, distributing, and transporting natural gas for customers in portions of Arizona, Nevada, and California. Public utility rates, practices, facilities, and service territories of Southwest are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas purchases and the timing of related recoveries can materially impact liquidity. Results for the natural gas operations segment are higher during winter periods due to the seasonality incorporated in its regulatory rate structures. Centuri is a comprehensive construction services enterprise dedicated to meeting the growing demands of North American utilities, energy and industrial markets. Centuri derives revenue from installation, replacement, repair, and maintenance of energy distribution systems, and developing industrial construction solutions primarily for energy services utilities. Centuri operations are generally conducted under the business names of NPL Construction Co. (“NPL”), NPL Canada Ltd. (“NPL Canada”, formerly Link-Line Contractors Ltd.), W.S. Nicholls Construction, Inc. and related companies (“W.S. Nicholls”), and Brigadier Pipelines Inc. (“Brigadier”). Typically, Centuri revenues are lowest during the first quarter of the year due to unfavorable winter weather conditions. Operating revenues typically improve as more favorable weather conditions occur during the summer and fall months.

Basis of Presentation. The condensed consolidated financial statements for Southwest Gas Holdings, Inc. and subsidiaries (the “Company”) and Southwest included herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. As indicated above, in connection with the holding company reorganization, Centuri ceased to be a subsidiary of Southwest and became a subsidiary of Southwest Gas Holdings, Inc. To give effect to this change, the separate condensed consolidated financial statements related to Southwest Gas Corporation, which are included in this Form 10-Q, depict Centuri-related amounts for periods prior to January 1, 2017 as discontinued operations. Because the transfer of Centuri from Southwest Gas Corporation to Southwest Gas Holdings, Inc. was effectuated as an equity transaction and not a sale, assets and liabilities subject to the discontinued operations presentation have been reflected as noncurrent on the Southwest Gas Corporation Balance Sheet. Those assets and liabilities are detailed in **Note 10 – Reorganization Impacts – Discontinued Operations Solely Related to Southwest Gas Corporation**, and include both current and non-current amounts.

No substantive change has occurred with regard to the Company’s business segments on the whole, or in the primary businesses comprising those segments. Centuri operations continue to be part of continuing operations and of the consolidated financial statements of Southwest Gas Holdings, Inc.

The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of results for the interim periods, have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2016 Annual Report to Shareholders, which is incorporated by reference into the 2016 Form 10-K.

Prepays and other current assets. Prepays and other current assets includes gas pipe materials and operating supplies of \$39 million at June 30, 2017 and \$30 million at December 31, 2016 (carried at weighted average cost), and also includes natural gas stored underground and liquefied natural gas, in addition to prepaid assets.

Cash and Cash Equivalents. For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and financial instruments with a purchase-date maturity of three months or less. In general, cash and cash equivalents fall within Level 1 (quoted prices for identical financial instruments) of the three-level fair value hierarchy that ranks the inputs, used to measure fair value, by their reliability. However, cash and cash equivalents at June 30, 2017 and December 31, 2016 also includes money market fund investments of approximately \$7.7 million and \$5.3 million, respectively, which falls within Level 2 (significant other observable inputs) of the fair value hierarchy, due to the asset valuation methods used by money market funds.

Significant non-cash investing and financing activities for the natural gas operations segment included the following: Upon contract expiration, customer advances of approximately \$1.6 million and \$2.5 million, during the first six months of 2017 and 2016, respectively, were applied as contributions toward utility construction activity and represent non-cash investing activity.

Adoption of Accounting Standards Update (“ASU”) No. 2016-09. As of January 1, 2017, the Company adopted Financial Accounting Standards Board (“FASB”) ASU No. 2016-09 “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” The adoption of this update is considered a change in accounting principle. Among other things, the update clarifies that all cash payments made to taxing authorities on the employees’ behalf for withheld shares should be presented as financing activities on the statement of cash flows. This change is required to be presented in the cash flow statement retrospectively. A new category, Withholding remittance – share-based compensation has been added to the Cash Flow from Financing Activities section of the Condensed Consolidated Statements of Cash Flows for both Southwest Gas Holdings, Inc. and Southwest Gas Corporation. The withheld taxes were included in the Other current assets and liabilities line item of the Condensed Consolidated Statement of Cash Flows in previous periods. Therefore, upon adoption, amounts presented as cash inflows from Other current assets and liabilities under the Cash Flow from Operating Activities section of the Southwest Gas Holdings, Inc. Consolidated Cash Flow Statements were revised from \$5.8 million to \$7.8 million for the six months ended June 30, 2016 and inflows in the same category for the twelve months ended June 30, 2016 were revised from \$18.9 million to \$22.7 million. In addition, while standalone financial statements were not previously presented for natural gas operations, for reasons related to the holding company reorganization discussed above, they are now presented. Therefore, upon adoption of this standard, the Cash Flow from Operating Activities section of the Southwest Gas Corporation Cash Flow Statements reflects a reclassification of cash inflows from Other current assets and liabilities from \$2.8 million to \$4.8 million for the six months ended June 31, 2016 and cash inflows in the same category were revised from \$7.8 million to \$11.6 million for the twelve months ended June 30, 2016.

Under the new guidance, the Company can withhold any amount between the minimum and maximum individual statutory tax rates and still treat the entire award as equity. The Company intends to administer withholding such that awards under stock compensation programs will continue to be treated as equity awards.

In addition to the above, the update requires all income tax-related cash flows resulting from share-based payments (unrelated to employee withholding) be reported as operating activities on the statement of cash flows, a change from the previous requirement to present windfall tax benefits as an inflow from financing activities and an outflow from operating activities. The Company chose to apply this presentation requirement of the update prospectively as permitted. Therefore, prior periods were not impacted in implementing this provision of the update.

Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value are required to be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. The Company had no previously unrecognized tax benefits as a result of these changes; therefore, no cumulative effect adjustment to the Company’s opening retained earnings was required.

Goodwill. Goodwill is assessed each October for impairment (required annually by U.S. GAAP), or otherwise, if circumstances indicate impairment to the carrying value of goodwill may have occurred. In consideration of the holding company reorganization, management of the Company considered its reporting units and segments and determined that historic judgments regarding its segments and

reporting units continue to apply, and that no change was necessary with regard to the level at which goodwill is assessed for impairment. No impairment was deemed to have occurred in the first six months of 2017.

(In thousands of dollars)	Natural Gas Operations	Construction Services	Consolidated
December 31, 2016	\$ 10,095	\$ 129,888	\$ 139,983
Foreign currency translation adjustment	—	3,600	3,600
June 30, 2017	<u>\$ 10,095</u>	<u>\$ 133,488</u>	<u>\$ 143,583</u>

Intercompany Transactions. Centuri recognizes revenues generated from contracts with Southwest (see **Note 3—Segment Information**). Centuri's accounts receivable for these services are presented in the table below (thousands of dollars):

	June 30, 2017	December 31, 2016
Centuri accounts receivable for services provided to Southwest	<u>\$ 10,265</u>	<u>\$ 10,585</u>

The accounts receivable balance, revenues, and associated profits are included in the condensed consolidated financial statements of the Company and were not eliminated during consolidation in accordance with accounting treatment for rate-regulated entities.

Other Property and Investments. Other property and investments on the Southwest Gas Holdings, Inc. Condensed Consolidated Balance Sheets includes (thousands of dollars):

	June 30, 2017	December 31, 2016
Centuri property and equipment	\$ 478,247	\$ 451,114
Centuri accumulated provision for depreciation and amortization	(240,182)	(228,374)
Net cash surrender value of COLI policies	111,523	106,744
Other property	13,303	12,859
Total	<u>\$ 362,891</u>	<u>\$ 342,343</u>

Other Income (Deductions). The following table provides the composition of significant items included in Other income (deductions) in the condensed consolidated statements of income (thousands of dollars):

	Three Months Ended		Six Months Ended		Twelve Months Ended	
	June 30	June 30	June 30	June 30	June 30	June 30
	2017	2016	2017	2016	2017	2016
Southwest Gas Corporation - natural gas operations segment:						
Change in COLI policies	\$ 1,900	\$ 2,200	\$ 4,700	\$ 3,100	\$ 9,000	\$ 1,300
Interest income	614	390	1,178	757	2,269	1,766
Equity AFUDC	633	750	1,109	1,282	2,116	3,157
Miscellaneous income and (expense)	(1,095)	(904)	(1,324)	(948)	(3,637)	(2,654)
Southwest Gas Corporation - total other income (deductions)	<u>2,052</u>	<u>2,436</u>	<u>5,663</u>	<u>4,191</u>	<u>9,748</u>	<u>3,569</u>
Construction services segment:						
Interest income	1	1	1	1	1	414
Foreign transaction gain (loss)	(197)	(9)	(198)	(19)	(201)	(271)
Miscellaneous income and (expense)	190	42	445	18	1,641	924
Centuri - total other income (deductions)	<u>(6)</u>	<u>34</u>	<u>248</u>	<u>—</u>	<u>1,441</u>	<u>1,067</u>
Corporate and administrative	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>
Consolidated Southwest Gas Holdings, Inc. - total other income (deductions)	<u>\$ 2,047</u>	<u>\$ 2,470</u>	<u>\$ 5,912</u>	<u>\$ 4,191</u>	<u>\$ 11,190</u>	<u>\$ 4,636</u>

Included in the table above is the change in cash surrender values of company-owned life insurance ("COLI") policies (including net death benefits recognized). These life insurance policies on members of management and other key employees are used by Southwest to indemnify itself against the loss of talent, expertise, and knowledge, as well as to provide indirect funding for certain nonqualified benefit plans. Current tax regulations provide for tax-free treatment of life insurance (death benefit) proceeds. Therefore, changes in the cash surrender values of COLI policies, as they progress towards the ultimate death benefits, are also recorded without tax consequences.

Recently Issued Accounting Standards Updates. In May 2014, the FASB issued the update “Revenue from Contracts with Customers (Topic 606).” The update replaces much of the current guidance regarding revenue recognition including most industry-specific guidance. In accordance with the update, an entity will be required to identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the entity satisfies a performance obligation. In addition to the new revenue recognition requirements, entities will be required to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Entities may choose between two retrospective transition methods when applying the update. In July 2015, the FASB approved a one-year deferral of the effective date (annual periods beginning after December 15, 2017). In March, April, May, and December of 2016, the FASB issued updates to Topic 606 related to “Principal versus Agent Considerations (Reporting Revenue Gross versus Net)”, “Identifying Performance Obligations and Licensing,” “Narrow-Scope Improvements and Practical Expedients”, and certain “Technical Corrections and Improvements.” The amendments in the first two updates, respectively, provide guidance when another party, along with the entity, is involved in providing a good or service to a customer, and provide clarification with regard to identifying performance obligations and of the licensing implementation guidance in Topic 606. The third update includes improvements to the guidance on collectability, noncash consideration, and completed contracts at transition. In addition, a practical expedient is provided for contract modifications at transition and an accounting policy election related to the presentation of sales taxes and other similar taxes collected from customers. The fourth update affects narrow aspects of the guidance as issued to date. Management plans to adopt all of these updates at the required adoption date, which is for interim and annual reporting periods commencing January 2018.

Management has substantially completed the evaluation of the sources of revenue and is currently assessing the effect of the new guidance on its financial position, results of operations and cash flows. The final assessment is contingent, in part, upon the completion of reviews related to customers with negotiated and unique billing terms. Deliberations have been ongoing by the utility industry, notably in connection with efforts to produce an accounting guide intended to be developed by the American Institute of Certified Public Accountants (“AICPA”). In association with this undertaking, the AICPA formed a number of industry task forces, including a Power & Utilities (“P&U”) Task Force, on which Company personnel actively participate via formal membership. Industry representatives and organizations, the largest auditing firms, the AICPA’s Revenue Recognition Working Group and its Financial Reporting Executive Committee have undertaken, and continue to undertake, consideration of several items relevant to the utility industry. Where applicable or necessary, the FASB’s Transition Resource Group (“TRG”) is also participating. Through the P&U Task Force undertakings to date, general determinations have been made that contributions received in aid of construction (“CIAC”) efforts related to the industry’s pipe distribution and transmission systems are reimbursements of expenditures rather than revenue (consistent with current accounting practices). Furthermore, regarding the “collectability” criterion in the update that must be met for revenue recognition, general determinations have been made that contracts for utility service (including service to lower income or lower credit quality customers) represent genuine and valid contracts for which revenue is able to be recognized when service is rendered (consistent with current accounting practices). These determinations by the P&U industry are based on the various measures the industry takes to help ensure collectability (e.g., proof of creditworthiness, customer deposits, late fee assessment, disconnection, service re-establishment fees, collection processes, etc.), in addition to the regulatory mechanisms established under rate regulation to mitigate the impacts of individual customer nonpayment. A timeline for the resolution of all deliberations of P&U efforts has not been established. Southwest continues to actively work with its peers in the rate-regulated natural gas industry and with the public accounting profession to finalize the accounting treatment for several other issues that are not being separately addressed by the P&U Task Force.

As of June 30, 2017, the construction services segment has substantially completed the evaluation of sources of revenue and continues to assess the effect of the new guidance on financial position, results of operations and cash flows. The principals of the new revenue recognition guidance are very similar to existing guidance for construction contractors. Similar to the P&U Task Force noted above, the AICPA formed the Engineering and Construction Contractors Task Force to assist the construction industry with implementing the new guidance. The accounting guide the AICPA intends to release is expected to provide implementation guidance related to several issues including 1) combining contracts and separating performance obligations; 2) estimating change orders, incentives, penalties, liquidated damages and other variable consideration items and 3) acceptable measures of progress when recognizing revenue over time.

Given the uncertainty with respect to the conclusions that might arise from the ongoing deliberations on issues associated with both the natural gas and construction services segments, the Company is currently unable to determine the effect the new guidance will have on its financial position, results of operations, cash flows, business processes, or the transition method it will utilize to adopt the new guidance. However, conclusions reached regarding CIAC and collectability criterion with regard to utility service are significant and are aligned with current practices and recognition.

In January 2016, the FASB issued the update “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities” in order to improve the recognition and measurement of financial instruments. The update makes targeted improvements to existing U.S. GAAP by: 1) requiring equity investments to be measured at fair value with changes in fair value recognized in net income; 2) requiring the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes; 3) requiring separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; 4) eliminating the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and 5) requiring a reporting entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in instrument-specific credit risk when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. All entities can early adopt the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. Management is evaluating what impact, if any, this update might have on its consolidated financial statements and disclosures.

In February 2016, the FASB issued the update “Leases (Topic 842).” Under the update, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. Though companies have historically been required to make disclosures regarding leases and of contractual obligations, leases (with terms longer than a year) will no longer exist off-balance sheet. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. Early application is permitted. Management currently plans to adopt the update at the required adoption date, which is for interim and annual reporting periods commencing January 1, 2019. Existing leases have been documented by both segments and management is in the process of determining if special software will be necessary to implement the standard. In addition, management is evaluating the potential impacts of various natural gas industry-related issues in light of the leasing standard. Given the uncertainty with respect to

the conclusions that might arise from these deliberations, management is currently unable to determine the effect the new guidance will have on its financial position, results of operations, cash flows, or business processes.

In June 2016, the FASB issued the update “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The update amends guidance on reporting credit losses for financial assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, the update eliminates the “probable” threshold for initial recognition of credit losses in current U.S. GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current U.S. GAAP, however the update will require that credit losses be presented as an allowance rather than as a write-down. This update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The update affects loans, debt securities, trade receivables, net investments in leases, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The update is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All entities may adopt the amendments in this update earlier as of fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is evaluating what impact, if any, this update might have on its consolidated financial statements and disclosures.

In August 2016, the FASB issued the update “Classification of Certain Cash Receipts and Cash Payments.” This update addresses the following specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance (“COLI”) policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows, including identification of the predominant nature in cases where cash receipts and payments have aspects of more than one class of cash flows. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Management is evaluating the impacts this update might have on its consolidated cash flow statements and disclosures.

In October 2016, the FASB issued the update “Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory.” This update eliminates the current U.S. GAAP exception for all intra-entity sales of assets other than inventory. As a result, a reporting entity would recognize the tax expense from the sale of the asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of that transaction are eliminated in consolidation. Any deferred tax asset that arises in the buyer’s jurisdiction would also be recognized at the time of the transfer. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted; however, the guidance can only be adopted in the first interim period of a fiscal year. No such election to adopt early was made by management. The modified retrospective approach will be required for transition to the new guidance, with a cumulative-effect adjustment recorded in retained earnings as of the beginning of the period of adoption. Management is evaluating the impacts this update might have on its consolidated financial statements.

In January 2017, the FASB issued the update “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The update eliminates Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable. The update also eliminates the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The amendments should be applied on a prospective basis. The update is effective for fiscal and interim periods beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Management has determined that this update would have had no impact on the consolidated financial statements for the periods presented if it had been effective during those periods.

In March 2017, the FASB issued the update “Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The update applies to all employers that offer to their employees defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715, Compensation – Retirement Benefits. The update requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented, and be appropriately described (or disclosed in the notes when one is not presented). The update also allows only the service cost component (and not the other components of periodic benefit costs) to be eligible for capitalization when applicable, making no exception for specialized industries, including rate-regulated industries. Southwest is a rate-regulated utility offering pension and postretirement benefits to retired employees. Rate-regulated entities providing utility and transmission services have historically capitalized a portion of periodic benefit costs (including non-service cost components) in utility infrastructure (for instance, when productive labor is also charged to capital work orders). The portion capitalized becomes a component of depreciation rate development by efforts of companies and their regulatory commissions. The industry is currently evaluating whether this update could cause a difference (not currently existing), between accounting reflected in general purpose financial statements versus financial statements and information utilized for regulatory reporting and ratemaking purposes. Deliberations center on whether companies will be able to implement the provisions of the update for all purposes, only for general purpose financial reporting purposes, or whether regulatory reporting and economics will give effect to other related changes necessary in general purpose financial statements. If the provisions of the update cannot be implemented for all purposes, substantial effort could be required to maintain separate records and to provide reasonable reconciliation means for users of both. The update is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Due to the industry deliberations noted above, management has not fully completed its evaluation at this time. As efforts continue, management will be evaluating the various impacts this update will have on its consolidated financial statements and disclosures.

Note 2 – Components of Net Periodic Benefit Cost

Southwest has a noncontributory qualified retirement plan with defined benefits covering substantially all employees and a separate unfunded supplemental retirement plan (“SERP”) which is limited to officers. Southwest also provides postretirement benefits other than pensions (“PBOP”) to its qualified retirees for health care, dental, and life insurance.

Net periodic benefit costs included in the table below are components of an overhead loading process associated with the cost of labor. The overhead process ultimately results in allocation of net periodic benefit costs to the same accounts to which productive labor is charged. As a result, net periodic benefit costs become components of various accounts, primarily operations and maintenance expense, net utility plant, and deferred charges and other assets for both the Company and Southwest.

	Qualified Retirement Plan					
	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2017	2016	2017	2016	2017	2016
(Thousands of dollars)						
Service cost	\$ 5,848	\$ 5,708	\$ 11,696	\$ 11,417	\$ 23,112	\$ 23,979
Interest cost	11,521	11,507	23,041	23,013	46,055	45,127
Expected return on plan assets	(13,799)	(14,139)	(27,598)	(28,279)	(55,877)	(57,183)
Amortization of net actuarial loss	6,001	6,316	12,002	12,633	24,635	29,005
Net periodic benefit cost	<u>\$ 9,571</u>	<u>\$ 9,392</u>	<u>\$ 19,141</u>	<u>\$ 18,784</u>	<u>\$ 37,925</u>	<u>\$ 40,928</u>
	SERP					
	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2017	2016	2017	2016	2017	2016
(Thousands of dollars)						
Service cost	\$ 77	\$ 83	\$ 155	\$ 165	\$ 321	\$ 325
Interest cost	471	465	942	930	1,871	1,778
Amortization of net actuarial loss	360	346	720	692	1,411	1,338
Net periodic benefit cost	<u>\$ 908</u>	<u>\$ 894</u>	<u>\$ 1,817</u>	<u>\$ 1,787</u>	<u>\$ 3,603</u>	<u>\$ 3,441</u>
	PBOP					
	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2017	2016	2017	2016	2017	2016
(Thousands of dollars)						
Service cost	\$ 367	\$ 375	\$ 734	\$ 749	\$ 1,484	\$ 1,569
Interest cost	808	795	1,616	1,591	3,205	3,091
Expected return on plan assets	(839)	(787)	(1,679)	(1,575)	(3,253)	(3,307)
Amortization of prior service costs	334	334	668	668	1,335	1,336
Amortization of net actuarial loss	—	104	—	208	209	380
Net periodic benefit cost	<u>\$ 670</u>	<u>\$ 821</u>	<u>\$ 1,339</u>	<u>\$ 1,641</u>	<u>\$ 2,980</u>	<u>\$ 3,069</u>

Note 3 – Segment Information

The Company has two reportable segments: natural gas operations and construction services. Southwest has a single reportable segment that is referred to herein as the natural gas operations segment of the Company. In order to reconcile to net income as disclosed in the Condensed Consolidated Statements of Income, an Other column is included associated with impacts related to corporate and administrative activities related to Southwest Gas Holdings, Inc. The following tables present revenues from external customers, intersegment revenues, and segment net income for the two reportable segments (thousands of dollars):

	<u>Natural Gas Operations</u>	<u>Construction Services</u>	<u>Other</u>	<u>Total</u>
Three months ended June 30, 2017				
Revenues from external customers	\$ 260,162	\$ 277,384	\$ —	\$ 537,546
Intersegment revenues	—	22,923	—	22,923
Total	<u>\$ 260,162</u>	<u>\$ 300,307</u>	<u>\$ —</u>	<u>\$ 560,469</u>
Segment net income (loss)	<u>\$ 9,522</u>	<u>\$ 8,716</u>	<u>\$(374)</u>	<u>\$ 17,864</u>
Three months ended June 30, 2016				
Revenues from external customers	\$ 255,648	\$ 266,343	\$ —	\$ 521,991
Intersegment revenues	—	25,757	—	25,757
Total	<u>\$ 255,648</u>	<u>\$ 292,100</u>	<u>\$ —</u>	<u>\$ 547,748</u>
Segment net income	<u>\$ 2,358</u>	<u>\$ 6,585</u>	<u>\$ —</u>	<u>\$ 8,943</u>
Six months ended June 30, 2017				
Revenues from external customers	\$ 722,764	\$ 448,223	\$ —	\$ 1,170,987
Intersegment revenues	—	44,219	—	44,219
Total	<u>\$ 722,764</u>	<u>\$ 492,442</u>	<u>\$ —</u>	<u>\$ 1,215,206</u>
Segment net income (loss)	<u>\$ 86,460</u>	<u>\$ 1,382</u>	<u>\$(670)</u>	<u>\$ 87,172</u>
Six months ended June 30, 2016				
Revenues from external customers	\$ 780,748	\$ 450,304	\$ —	\$ 1,231,052
Intersegment revenues	—	47,944	—	47,944
Total	<u>\$ 780,748</u>	<u>\$ 498,248</u>	<u>\$ —</u>	<u>\$ 1,278,996</u>
Segment net income	<u>\$ 79,941</u>	<u>\$ 4,448</u>	<u>\$ —</u>	<u>\$ 84,389</u>
Twelve months ended June 30, 2017				
Revenues from external customers	\$ 1,263,428	\$ 1,038,876	\$ —	\$ 2,302,304
Intersegment revenues	—	94,396	—	94,396
Total	<u>\$ 1,263,428</u>	<u>\$ 1,133,272</u>	<u>\$ —</u>	<u>\$ 2,396,700</u>
Segment net income (loss)	<u>\$ 125,942</u>	<u>\$ 29,552</u>	<u>\$(670)</u>	<u>\$ 154,824</u>
Twelve months ended June 30, 2016				
Revenues from external customers	\$ 1,395,629	\$ 964,973	\$ —	\$ 2,360,602
Intersegment revenues	—	109,195	—	109,195
Total	<u>\$ 1,395,629</u>	<u>\$ 1,074,168</u>	<u>\$ —</u>	<u>\$ 2,469,797</u>
Segment net income	<u>\$ 113,302</u>	<u>\$ 32,472</u>	<u>\$ —</u>	<u>\$ 145,774</u>

Note 4 – Derivatives and Fair Value Measurements

Derivatives. In managing its natural gas supply portfolios, Southwest has historically entered into fixed- and variable-price contracts, which qualify as derivatives. Additionally, Southwest utilizes fixed-for-floating swap contracts (“Swaps”) to supplement its fixed-price contracts. The fixed-price contracts, firm commitments to purchase a fixed amount of gas in the future at a fixed price, qualify for the normal purchases and normal sales exception that is allowed for contracts that are probable of delivery in the normal course of business, and are exempt from fair value reporting.

The variable-price contracts have no significant market value. The Swaps are recorded at fair value.

The fixed-price contracts and Swaps are utilized by Southwest under its volatility mitigation programs to effectively fix the price on a portion (up to 25% in the Arizona and California jurisdictions) of its natural gas supply portfolios. The maturities of the Swaps highly correlate to forecasted purchases of natural gas, during time frames ranging from July 2017 through March 2019. Under such contracts, Southwest pays the counterparty a fixed rate and receives from the counterparty a floating rate per MMBtu (“dekatherm”) of natural gas. Only the net differential is actually paid or received. The differential is calculated based on the notional amounts under the contracts, which are detailed in the table below (thousands of dekatherms):

	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Contract notional amounts	<u>11,035</u>	<u>10,543</u>

Southwest does not utilize derivative financial instruments for speculative purposes, nor does it have trading operations.

The following table sets forth the gains and (losses) recognized on the Swaps (derivatives) for the three-, six-, and twelve-month periods ended June 30, 2017 and 2016 and their location in the Condensed Consolidated Statements of Income for both the Company and Southwest:

Gains (losses) recognized in income for derivatives not designated as hedging instruments:

(Thousands of dollars)

Instrument	Location of Gain or (Loss) Recognized in Income on Derivative	Three Months Ended		Six Months Ended		Twelve Months Ended	
		June 30		June 30		June 30	
		2017	2016	2017	2016	2017	2016
Swaps	Net cost of gas sold	\$(1,168)	\$ 5,537	\$(6,305)	\$ 4,325	\$(5,624)	\$ (1,866)
Swaps	Net cost of gas sold	1,168*	(5,537)*	6,305*	(4,325)*	5,624*	1,866*
Total		<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

* Represents the impact of regulatory deferral accounting treatment under U.S. GAAP for rate-regulated entities.

No gains (losses) were recognized in net income or other comprehensive income during the periods presented for derivatives designated as cash flow hedging instruments. Previously, Southwest entered into two forward-starting interest rate swaps (“FSIRS”), both of which were designated cash flow hedges, to partially hedge the risk of interest rate variability during the period leading up to the planned issuance of debt. The first FSIRS terminated in December 2010. The second FSIRS terminated in March 2012. Losses on both FSIRS are being amortized over ten-year periods from Accumulated other comprehensive income (loss) into interest expense.

The following table sets forth the fair values of the Swaps and their location in the Condensed Consolidated Balance Sheets for both the Company and Southwest (thousands of dollars):

Fair values of derivatives not designated as hedging instruments:

June 30, 2017		Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total
Instrument					
Swaps		Other current liabilities	\$ 25	\$ (1,575)	\$(1,550)
Swaps		Other deferred credits	29	(681)	(652)
Total			<u>\$ 54</u>	<u>\$ (2,256)</u>	<u>\$(2,202)</u>

December 31, 2016		Balance Sheet Location	Asset Derivatives	Liability Derivatives	Net Total
Instrument					
Swaps		Deferred charges and other assets	\$ 899	\$ (54)	\$ 845
Swaps		Prepays and other current assets	3,551	(19)	3,532
Total			<u>\$ 4,450</u>	<u>\$ (73)</u>	<u>\$ 4,377</u>

The estimated fair values of the natural gas derivatives were determined using future natural gas index prices (as more fully described below). Master netting arrangements exist with each counterparty that provide for the net settlement (in the settlement month) of all contracts through a single payment. As applicable, management has elected to reflect

the net amounts in its balance sheets. There was no outstanding collateral associated with the Swaps during either period shown in the above table.

Pursuant to regulatory deferral accounting treatment for rate-regulated entities, unrealized gains and losses in fair value of the Swaps are recorded as a regulatory asset and/or liability. When the Swaps mature, any prior positions held are reversed and the settled position is recorded as an increase or decrease of purchased gas under the related purchased gas adjustment (“PGA”) mechanism in determining its deferred PGA balances. Neither changes in fair value, nor settled amounts, of Swaps have a direct effect on earnings or other comprehensive income.

The following table shows the amounts Southwest paid to and received from counterparties for settlements of matured Swaps.

(Thousands of dollars)	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017	Twelve Months Ended June 30, 2017
Paid to counterparties	\$ 111	\$ 1,412	\$ 2,512
Received from counterparties	\$ —	\$ 1,685	\$ 2,411

The following table details the regulatory assets/(liabilities) offsetting the derivatives at fair value in the Condensed Consolidated Balance Sheets for both the Company and Southwest (thousands of dollars).

June 30, 2017		
Instrument	Balance Sheet Location	Net Total
Swaps	Prepays and other current assets	\$ 1,550
Swaps	Deferred charges and other assets	652
December 31, 2016		
Instrument	Balance Sheet Location	Net Total
Swaps	Other deferred credits	\$ (845)
Swaps	Other current liabilities	(3,532)

Fair Value Measurements. The estimated fair values of Southwest’s Swaps were determined at June 30, 2017 and December 31, 2016 using New York Mercantile Exchange (“NYMEX”) futures settlement prices for delivery of natural gas at Henry Hub adjusted by the price of NYMEX ClearPort basis Swaps, which reflect the difference between the price of natural gas at a given delivery basin and the Henry Hub pricing points. These Level 2 inputs (inputs, other than quoted prices, for similar assets or liabilities) are observable in the marketplace throughout the full term of the Swaps, but have been credit-risk adjusted with no significant impact to the overall fair value measurement.

The following table sets forth, by level within the three-level fair value hierarchy that ranks the inputs used to measure fair value by their reliability, the financial assets and liabilities that were accounted for at fair value by both the Company and Southwest:

Level 2—Significant other observable inputs

(Thousands of dollars)	June 30, 2017	December 31, 2016
Assets at fair value:		
Prepays and other current assets - Swaps	\$ —	\$ 3,532
Deferred charges and other assets - Swaps	—	845
Liabilities at fair value:		
Other current liabilities - Swaps	(1,550)	—
Other deferred credits - Swaps	(652)	—
Net Assets (Liabilities)	<u>\$(2,202)</u>	<u>\$ 4,377</u>

No financial assets or liabilities associated with the Swaps, which were accounted for at fair value, fell within Level 1 (quoted prices in active markets for identical financial assets) or Level 3 (significant unobservable inputs) of the fair value hierarchy.

With regard to the fair values of assets associated with pension and postretirement benefit plans, asset values were last updated as required as of December 2016. Refer to Note 10 – Pension and Other Post Retirement Benefits in the 2016 Annual Report to Shareholders on Form 10-K.

Note 5 – Common Stock

In January 2017, the holding company reorganization was made effective and each outstanding share of Southwest Gas Corporation common stock was converted into a share of common stock in Southwest Gas Holdings, Inc., on a one-for-one basis. The ticker symbol of the stock, “SWX,” remained unchanged, and Southwest Gas Corporation became a wholly owned subsidiary of Southwest Gas Holdings, Inc.

On March 29, 2017, the Company filed with the Securities Exchange Commission (“SEC”) an automatic shelf registration statement on Form S-3 (File No. 333-217018), which became effective upon filing, for the offer and sale of up to \$150 million of common stock from time to time in at-the-market offerings under the prospectus included therein and in accordance with the Sales Agency Agreement, dated March 29, 2017, between the Company and BNY Mellon Capital Markets, LLC (the “Equity Shelf Program”). No shares of the Company’s common stock have been sold under that registration statement.

During the six months ended June 30, 2017, the Company issued approximately 101,000 shares of common stock through the Restricted Stock/Unit Plan and Management Incentive Plan.

Note 6 – Long-Term Debt

Carrying amounts of long-term debt and related estimated fair values as of June 30, 2017 and December 31, 2016 are disclosed in the following table. Southwest’s revolving credit facility (including commercial paper) and the variable-rate Industrial Development Revenue Bonds (“IDRBs”) approximate their carrying values, as they are repaid quickly (in the case of credit facility borrowings) and have interest rates that reset frequently. These are categorized as Level 1 due to Southwest’s ability to access similar debt arrangements at measurement dates with comparable terms, including variable/market rates. The fair values of Southwest’s debentures, senior notes, and fixed-rate IDRBs were determined utilizing a market-based valuation approach, where fair values are determined based on evaluated pricing data, such as broker quotes and yields for similar securities adjusted for observable differences. Significant inputs used in the valuation generally include benchmark yield curves, credit ratings and issuer spreads. The external credit rating, coupon rate, and maturity of each security are considered in the valuation, as applicable. The fair values of debentures and fixed-rate IDRBs are categorized as Level 2 (observable market inputs based on market prices of similar securities). The Centuri secured revolving credit and term loan facility and Centuri other debt obligations (not actively traded) are categorized as Level 3, based on significant unobservable inputs to their fair values. Because Centuri’s debt is not publicly traded, fair values for the secured revolving credit and term loan facility and other debt obligations were based on a conventional discounted cash flow methodology and utilized current market pricing yield curves, across Centuri’s debt maturity spectrum, of other industrial bonds with an assumed credit rating comparable to the Company’s.

	June 30, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Thousands of dollars)				
Southwest Gas Corporation:				
Debtures:				
Notes, 4.45%, due 2020	\$ 125,000	\$ 130,821	\$ 125,000	\$ 129,703
Notes, 6.1%, due 2041	125,000	155,466	125,000	149,734
Notes, 3.875%, due 2022	250,000	259,368	250,000	254,900
Notes, 4.875%, due 2043	250,000	268,728	250,000	266,793
Notes, 3.8%, due 2046	300,000	284,172	300,000	283,029
8% Series, due 2026	75,000	96,783	75,000	94,691
Medium-term notes, 7.59% series, due 2017	—	—	25,000	25,040
Medium-term notes, 7.78% series, due 2022	25,000	29,356	25,000	29,290
Medium-term notes, 7.92% series, due 2027	25,000	32,320	25,000	31,905
Medium-term notes, 6.76% series, due 2027	7,500	8,914	7,500	8,769
Unamortized discount and debt issuance costs	(9,644)		(9,931)	
	<u>1,172,856</u>		<u>1,197,569</u>	
Revolving credit facility and commercial paper	92,000	92,000	5,000	5,000
Industrial development revenue bonds:				
Variable-rate bonds:				
Tax-exempt Series A, due 2028	50,000	50,000	50,000	50,000
2003 Series A, due 2038	50,000	50,000	50,000	50,000
2008 Series A, due 2038	50,000	50,000	50,000	50,000
2009 Series A, due 2039	50,000	50,000	50,000	50,000
Unamortized discount and debt issuance costs	(2,304)		(2,489)	
	<u>197,696</u>		<u>197,511</u>	
Less: current maturities	—		(25,000)	
Long-term debt, less current maturities - Southwest Gas Corporation	<u>\$ 1,462,552</u>		<u>\$ 1,375,080</u>	
Centuri:				
Centuri term loan facility	\$ 105,559	105,641	\$ 106,700	106,819
Unamortized debt issuance costs	(427)		(516)	
	<u>105,132</u>		<u>106,184</u>	
Centuri secured revolving credit facility	99,943	100,091	41,185	41,292
Centuri other debt obligations	45,307	45,589	52,635	52,840
Less: current maturities	(27,236)		(25,101)	
Long-term debt, less current maturities - Centuri	<u>\$ 223,146</u>		<u>\$ 174,903</u>	
Consolidated Southwest Gas Holdings, Inc.:				
Southwest Gas Corporation long-term debt	\$ 1,462,552		\$ 1,400,080	
Centuri long-term debt	250,382		200,004	
Less: current maturities	(27,236)		(50,101)	
Long-term debt, less current maturities - Southwest Gas Holdings, Inc.	<u>\$ 1,685,698</u>		<u>\$ 1,549,983</u>	

In March 2017, Southwest amended its credit facility, increasing the borrowing capacity from \$300 million to \$400 million. Also, the facility was previously scheduled to expire in March 2021 and was extended to March 2022. Southwest continues to designate \$150 million of capacity related to the facility as long-term debt and with the total capacity now available, has designated the remaining \$250 million for working capital purposes. Interest rates for the credit facility are calculated at either the London Interbank Offered Rate ("LIBOR") or an "alternate base rate," plus in each case an applicable margin that is determined based on the Southwest's senior unsecured debt rating. At June 30, 2017, the applicable margin is 1% for loans bearing interest with reference to LIBOR and 0% for loans bearing interest with reference to the alternative base rate. At June 30, 2017, \$92 million was outstanding on the long-term and no borrowings were outstanding on the short-term portions of this credit facility.

Centuri has a \$300 million secured revolving credit and term loan facility that is scheduled to expire in October 2019. At June 30, 2017, \$206 million in borrowings were outstanding on the Centuri facility. Centuri assets securing the facility at June 30, 2017 totaled \$501 million.

Note 7 – Short-Term Debt

In March 2017, Southwest Gas Holdings, Inc. entered into a credit facility with a borrowing capacity of \$100 million that expires in March 2022. The Company intends to utilize this facility for short-term financing needs. Interest rates for this facility are calculated at either the LIBOR or the “alternate base rate,” plus in each case an applicable margin that is determined based on the Company’s senior unsecured debt rating. The applicable margin ranges from 0.75% to 1.50% for loans bearing interest with reference to LIBOR and from 0% to 0.5% for loans bearing interest with reference to the alternative base rate. The Company is also required to pay a commitment fee on the unfunded portion of the commitments based on its senior unsecured long-term debt rating. The commitment fee ranges from 0.075% to 0.200% per annum. At June 30, 2017, \$2.5 million was outstanding on this facility.

Note 8 – Equity, Other Comprehensive Income, and Accumulated Other Comprehensive Income

The table below provides details of activity in equity and the redeemable noncontrolling interest for Southwest Gas Holdings, Inc. on a consolidated basis during the six months ended June 30, 2017.

	Southwest Gas Holdings, Inc. Equity							Redeemable Noncontrolling Interest (Temporary Equity)
	Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Non- controlling	Total	
	Shares	Amount	Capital	Income (Loss)	Earnings	Interest		
DECEMBER 31, 2016	47,482	\$ 49,112	\$ 903,123	\$ (48,008)	\$759,263	\$ (2,217)	\$1,661,273	\$ 22,590
Common stock issuances	101	101	7,972				8,073	
Net income (loss)					87,172	(95)	87,077	49
Redemption value adjustments					2,315		2,315	(2,315)
Foreign currency exchange translation adj.				820			820	29
Other comprehensive income (loss):								
Net actuarial gain (loss) arising during period, less amortization of unamortized benefit plan cost, net of tax				1,190			1,190	
Amounts reclassified to net income, net of tax (FSIRS)				1,036			1,036	
Centuri dividend to redeemable noncontrolling interest								(204)
Dividends declared					(47,528)		(47,528)	
Common: \$0.99 per share					(47,528)		(47,528)	
JUNE 30, 2017	<u>47,583</u>	<u>\$ 49,213</u>	<u>\$ 911,095</u>	<u>\$ (44,962)</u>	<u>\$801,222</u>	<u>\$ (2,312)</u>	<u>\$1,714,256</u>	<u>\$ 20,149</u>

The table below provides details of activity in equity for Southwest Gas Corporation during the six months ended June 30, 2017. Effective in January 2017, Southwest became a subsidiary of Southwest Gas Holdings, Inc., and only equity shares of the latter are publicly traded, under the ticker symbol "SWX."

(In thousands, except per share amounts)	Southwest Gas Corporation Equity					Total
	<u>Common Stock</u>		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	
	Shares	Amount				
DECEMBER 31, 2016	47,482	\$49,112	\$897,346	\$ (45,639)	\$ 767,061	\$1,667,880
Net income					86,460	86,460
Other comprehensive income (loss):						
Net actuarial gain (loss) arising during period, less amortization of unamortized benefit plan cost, net of tax				1,190		1,190
Amounts reclassified to net income, net of tax (FSIRS)				1,036		1,036
Distribution to Southwest Gas Holdings, Inc. investment in discontinued operations					(182,773)	(182,773)
Stock-based compensation (a)			7,369		(392)	6,977
Dividends declared to Southwest Gas Holdings, Inc.					(39,130)	(39,130)
JUNE 30, 2017	<u>47,482</u>	<u>\$49,112</u>	<u>\$904,715</u>	<u>\$ (43,413)</u>	<u>\$ 631,226</u>	<u>\$1,541,640</u>

(a) Stock-based compensation is based on stock awards of Southwest Gas Corporation to be issued in shares of Southwest Gas Holdings, Inc.

The table above gives effect to the holding company reorganization whereby Southwest and Centuri became subsidiaries of the Company. The historic investment in Centuri was distributed to the parent holding company. This presentation is only applicable to Southwest and not to the Company overall, as Centuri continues to be included in the continuing operations of the Company. Also in connection with the holding company creation, compensation plans of Southwest include programs that will be settled with equity shares issued by Southwest Gas Holdings, Inc. Management has determined that when no consideration is directly exchanged for these programs between Southwest and the Company, the accounting impact at Southwest for these programs is reflected both as compensation expense and as an equity contribution (of the parent) in Southwest.

The following information provides insight into amounts impacting the Company's Other Comprehensive Income (Loss), both before and after-tax, within the Condensed Consolidated Statements of Comprehensive Income, which also impact Accumulated Other Comprehensive Income in the Condensed Consolidated Balance Sheets and the associated column in the equity table above, as well as the Redeemable Noncontrolling Interest. See **Note 4 – Derivatives and Fair Value Measurements** for additional information on the FSIRS.

Related Tax Effects Allocated to Each Component of Other Comprehensive Income (Loss)

(Thousands of dollars)

	Three Months Ended June 30, 2017			Three Months Ended June 30, 2016		
	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of- Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of- Tax Amount
Defined benefit pension plans:						
Amortization of prior service cost	\$ 334	\$ (127)	\$ 207	\$ 334	\$ (127)	\$ 207
Amortization of net actuarial (gain)/loss	6,361	(2,417)	3,944	6,766	(2,572)	4,194
Regulatory adjustment	(5,735)	2,179	(3,556)	(6,123)	2,327	(3,796)
Pension plans other comprehensive income (loss)	960	(365)	595	977	(372)	605
FSIRS (designated hedging activities):						
Amounts reclassified into net income	836	(318)	518	837	(318)	519
FSIRS other comprehensive income	836	(318)	518	837	(318)	519
Total other comprehensive income (loss) - Southwest Gas Corporation	1,796	(683)	1,113	1,814	(690)	1,124
Foreign currency translation adjustments:						
Translation adjustments	629	—	629	70	—	70
Foreign currency other comprehensive income (loss)	629	—	629	70	—	70
Total other comprehensive income (loss) - Southwest Gas Holdings, Inc.	\$ 2,425	\$ (683)	\$ 1,742	\$ 1,884	\$ (690)	\$ 1,194

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of- Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of- Tax Amount
Defined benefit pension plans:						
Amortization of prior service cost	\$ 668	\$ (254)	\$ 414	\$ 668	\$ (254)	\$ 414
Amortization of net actuarial (gain)/loss	12,722	(4,834)	7,888	13,533	(5,143)	8,390
Regulatory adjustment	(11,470)	4,358	(7,112)	(12,246)	4,654	(7,592)
Pension plans other comprehensive income (loss)	1,920	(730)	1,190	1,955	(743)	1,212
FSIRS (designated hedging activities):						
Amounts reclassified into net income	1,672	(636)	1,036	1,673	(635)	1,038
FSIRS other comprehensive income	1,672	(636)	1,036	1,673	(635)	1,038
Total other comprehensive income (loss)—Southwest Gas Corporation	3,592	(1,366)	2,226	3,628	(1,378)	2,250
Foreign currency translation adjustments:						
Translation adjustments	849	—	849	852	—	852
Foreign currency other comprehensive income (loss)	849	—	849	852	—	852
Total other comprehensive income (loss)—Southwest Gas Holdings, Inc.	\$ 4,441	\$ (1,366)	\$ 3,075	\$ 4,480	\$ (1,378)	\$ 3,102

	Twelve Months Ended June 30, 2017			Twelve Months Ended June 30, 2016		
	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of- Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit (1)	Net-of- Tax Amount
Defined benefit pension plans:						
Net actuarial gain/(loss)	\$(22,770)	\$ 8,652	\$(14,118)	\$(30,519)	\$ 11,597	\$(18,922)
Amortization of prior service cost	1,335	(507)	828	1,336	(508)	828
Amortization of net actuarial (gain)/loss	26,255	(9,976)	16,279	30,723	(11,675)	19,048
Regulatory adjustment	(4,808)	1,826	(2,982)	(2,318)	882	(1,436)
Pension plans other comprehensive income (loss)	12	(5)	7	(778)	296	(482)
FSIRS (designated hedging activities):						
Amounts reclassified into net income	3,344	(1,271)	2,073	3,345	(1,271)	2,074
FSIRS other comprehensive income (loss)	3,344	(1,271)	2,073	3,345	(1,271)	2,074
Total other comprehensive income (loss)—Southwest Gas Corporation	3,356	(1,276)	2,080	2,567	(975)	1,592
Foreign currency translation adjustments:						
Translation adjustments	158	—	158	(39)	—	(39)
Foreign currency other comprehensive income (loss)	158	—	158	(39)	—	(39)
Total other comprehensive income (loss)—Southwest Gas Holdings, Inc.	\$ 3,514	\$ (1,276)	\$ 2,238	\$ 2,528	\$ (975)	\$ 1,553

- (1) Tax amounts are calculated using a 38% rate. The Company has elected to indefinitely reinvest the earnings of Centuri's Canadian subsidiaries in Canada, thus preventing deferred taxes on such earnings. As a result of this assertion, the Company is not recognizing any tax effect or presenting a tax expense or benefit for the currency translation adjustment amount reported in Other Comprehensive Income, as repatriation of earnings is not anticipated.

Approximately \$2.1 million of realized losses (net of tax) related to the FSIRS, reported in Accumulated other comprehensive income ("AOCI") at June 30, 2017, will be reclassified into interest expense within the next 12 months as the related interest payments on long-term debt occur.

The following table represents a rollforward of AOCI, presented on the Company's Condensed Consolidated Balance Sheets:

AOCI—Rollforward
(Thousands of dollars)

	Defined Benefit Plans			FSIRS			Foreign Currency Items			AOCI
	Before-Tax	Tax (Expense) Benefit (4)	After-Tax	Before-Tax	Tax (Expense) Benefit (4)	After-Tax	Before-Tax	Tax (Expense) Benefit	After-Tax	
Beginning Balance AOCI										
December 31, 2016	<u>\$(57,613)</u>	<u>\$ 21,893</u>	<u>\$(35,720)</u>	<u>\$(15,999)</u>	<u>\$ 6,080</u>	<u>\$(9,919)</u>	<u>\$(2,369)</u>	<u>\$ —</u>	<u>\$(2,369)</u>	<u>\$(48,008)</u>
Translation adjustments	—	—	—	—	—	—	849	—	849	849
Other comprehensive income before reclassifications	—	—	—	—	—	—	849	—	849	849
FSIRS amounts reclassified from AOCI (1)	—	—	—	1,672	(636)	1,036	—	—	—	1,036
Amortization of prior service cost (2)	668	(254)	414	—	—	—	—	—	—	414
Amortization of net actuarial loss (2)	12,722	(4,834)	7,888	—	—	—	—	—	—	7,888
Regulatory adjustment (3)	(11,470)	4,358	(7,112)	—	—	—	—	—	—	(7,112)
Net current period other comprehensive income (loss)	1,920	(730)	1,190	1,672	(636)	1,036	849	—	849	3,075
Less: Translation adjustment attributable to redeemable noncontrolling interest	—	—	—	—	—	—	29	—	29	29
Net current period other comprehensive income (loss) attributable to Southwest Gas Holdings, Inc.	1,920	(730)	1,190	1,672	(636)	1,036	820	—	820	3,046
Ending Balance AOCI June 30, 2017	<u>\$(55,693)</u>	<u>\$ 21,163</u>	<u>\$(34,530)</u>	<u>\$(14,327)</u>	<u>\$ 5,444</u>	<u>\$(8,883)</u>	<u>\$(1,549)</u>	<u>\$ —</u>	<u>\$(1,549)</u>	<u>\$(44,962)</u>

- (1) The FSIRS reclassification amounts are included in the Net interest deductions line item on the Company's Condensed Consolidated Statements of Income.
- (2) These AOCI components are included in the computation of net periodic benefit cost (see Note 2 – Components of Net Periodic **Benefit Cost** for additional details).
- (3) The regulatory adjustment represents the portion of the activity above that is expected to be recovered through rates in the future (the related regulatory asset is included in the Deferred charges and other assets line item on the Company's Condensed Consolidated Balance Sheets).
- (4) Tax amounts are calculated using a 38% rate.

The following table represents a rollforward of AOCI, presented on Southwest's Condensed Consolidated Balance Sheets:

AOCI—Rollforward
(Thousands of dollars)

	Defined Benefit Plans			FSIRS			AOCI
	Before-Tax	Tax (Expense) Benefit (8)	After-Tax	Before-Tax	Tax (Expense) Benefit (8)	After-Tax	
Beginning Balance AOCI December 31, 2016	<u>\$(57,613)</u>	<u>\$ 21,893</u>	<u>\$(35,720)</u>	<u>\$(15,999)</u>	<u>\$ 6,080</u>	<u>\$(9,919)</u>	<u>\$(45,639)</u>
FSIRS amounts reclassified from AOCI (5)	—	—	—	1,672	(636)	1,036	1,036
Amortization of prior service cost (6)	668	(254)	414	—	—	—	414
Amortization of net actuarial loss (6)	12,722	(4,834)	7,888	—	—	—	7,888
Regulatory adjustment (7)	(11,470)	4,358	(7,112)	—	—	—	(7,112)
Net current period other comprehensive income (loss) attributable to Southwest Gas Corporation	1,920	(730)	1,190	1,672	(636)	1,036	2,226
Ending Balance AOCI June 30, 2017	<u>\$(55,693)</u>	<u>\$ 21,163</u>	<u>\$(34,530)</u>	<u>\$(14,327)</u>	<u>\$ 5,444</u>	<u>\$(8,883)</u>	<u>\$(43,413)</u>

- (5) The FSIRS reclassification amounts are included in the Net interest deductions line item on Southwest's Condensed Consolidated Statements of Income.
- (6) These AOCI components are included in the computation of net periodic benefit cost (see Note 2 – Components of Net Periodic **Benefit Cost** for additional details).
- (7) The regulatory adjustment represents the portion of the activity above that is expected to be recovered through rates in the future (the related regulatory asset is included in the Deferred charges and other assets line item on Southwest's Condensed Consolidated Balance Sheets).
- (8) Tax amounts are calculated using a 38% rate.

The following table represents amounts (before income tax impacts) included in AOCI (in the tables above), that have not yet been recognized in net periodic benefit cost:

Amounts Recognized in AOCI (Before Tax)

(Thousands of dollars)	<u>June 30, 2017</u>	<u>December 31, 2016</u>
Net actuarial (loss) gain	\$ (418,251)	\$ (430,973)
Prior service cost	(5,035)	(5,703)
Less: amount recognized in regulatory assets	<u>367,593</u>	<u>379,063</u>
Recognized in AOCI	<u>\$ (55,693)</u>	<u>\$ (57,613)</u>

Note 9 – Construction Services Redeemable Noncontrolling Interest

In conjunction with the acquisition of the Canadian construction businesses in October 2014, the previous owners of the acquired companies hold a 3.4% equity interest in Centuri as of June 30, 2017. The terms of the agreement subject to the 3.4% interest permit the previous owners (when eligible) to exit their investment retained by requiring (if elected) the purchase of a portion of their interest based on an eligibility timeline, with incremental amounts subject to the election each year. The redemption price of the redeemable noncontrolling interest in accordance with the terms of the agreement is at fair value. The shares subject to the election cumulate (if earlier elections are not made) such that 100% of their interest retained would be subject to the election beginning in July 2022.

Due to the ability of the noncontrolling parties to redeem their interest for cash under the eligibility timeline, their interest is presented on the Company's Condensed Consolidated Balance Sheet at June 30, 2017 as a Redeemable noncontrolling interest, a category of mezzanine equity (temporary equity). The following depicts changes to the balance of the redeemable noncontrolling interest between the indicated periods.

(Thousands of dollars):	<u>Redeemable Noncontrolling Interest</u>
Balance, December 31, 2016	\$ 22,590
Net income (loss) attributable to redeemable noncontrolling interest	49
Foreign currency exchange translation adjustment	29
Centuri dividend to redeemable noncontrolling interest	(204)
Adjustment to redemption value	<u>(2,315)</u>
Balance, June 30, 2017	<u>\$ 20,149</u>

Note 10 – Reorganization Impacts – Discontinued Operations Solely Related to Southwest Gas Corporation

No substantive change has occurred with regard to the Company's business segments on the whole, or in the primary businesses comprising those segments (Centuri operations continue to be part of continuing operations of the controlled group of companies), and financial information related to Centuri continues to be included in condensed consolidated financial statements of Southwest Gas Holdings, Inc.

However, as part of the holding company reorganization effective January 2017, Centuri is no longer a subsidiary of Southwest; whereas historically, Centuri had been a direct subsidiary of Southwest. To give effect to this change, the condensed consolidated financial statements related to Southwest Gas Corporation, which are separately included in this Form 10-Q, depict Centuri-related amounts as discontinued operations for periods prior to January 2017.

Due to the discontinued operations accounting reflection, the following disclosures provide additional information regarding the assets, liabilities, equity, revenues, and expenses of Centuri which are shown as discontinued operations on the condensed consolidated financial statements of Southwest Gas Corporation for periods prior to the beginning of 2017.

The following table presents the major categories of assets and liabilities within the amounts reported as discontinued operations – construction services in the Condensed Consolidated Balance Sheet of Southwest Gas Corporation:

(Thousands of dollars)	<u>December 31, 2016</u>
Assets:	
Other property and investments	\$ 233,774
Cash and cash equivalents	9,042
Accounts receivable, net of allowances	173,300
Prepays and other current assets	10,470
Goodwill	129,888
Other noncurrent assets	22,897
Discontinued operations - construction services - assets	<u>\$ 579,371</u>
Liabilities:	
Current maturities of long-term debt	\$ 25,101
Accounts payable	46,440
Other current liabilities	74,518
Long-term debt, less current maturities	174,903
Deferred income taxes and other deferred credits	59,653
Discontinued operations—construction services—liabilities	<u>\$ 380,615</u>

The following table presents the components of the Discontinued operations—construction services non-owner equity amount shown in the Southwest Gas Corporation Condensed Consolidated Balance Sheet:

(Thousands of dollars)	<u>December 31, 2016</u>
Construction services equity	\$ (4,390)
Construction services noncontrolling interest	(2,217)
Construction services redeemable noncontrolling interest	22,590
Discontinued operations - construction services non - owner equity	<u>\$ 15,983</u>

The following table presents the major income statement components of discontinued operations – construction services reported in the Condensed Consolidated Income Statements of Southwest Gas Corporation:

Results of Construction Services

(Thousands of dollars)	<u>Three Months Ended June 30, 2016</u>	<u>Six Months Ended June 30, 2016</u>	<u>Twelve Months Ended June 30, 2017</u>	<u>Twelve Months Ended June 30, 2016</u>
Construction revenues	\$ 292,100	\$ 498,248	\$ 640,830	\$ 1,074,168
Operating expenses:				
Construction expenses	263,926	457,308	567,115	955,332
Depreciation and amortization	15,327	29,942	25,727	58,763
Operating income	12,847	10,998	47,988	60,073
Other income (deductions)	34	—	1,193	1,067
Net interest deductions	1,660	3,151	3,512	7,086
Income before income taxes	11,221	7,847	45,669	54,054
Income tax expense (benefit)	4,480	3,334	16,550	20,414
Net income	6,741	4,513	29,119	33,640
Net income attributable to noncontrolling interests	156	65	949	1,168
Discontinued operations - construction services - net income	<u>\$ 6,585</u>	<u>\$ 4,448</u>	<u>\$ 28,170</u>	<u>\$ 32,472</u>

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

Southwest Gas Holdings, Inc. is a holding company that owns all of the shares of common stock of Southwest Gas Corporation ("Southwest" or the "natural gas operations" segment) and 96.6% of the common stock of Centuri Construction Group Inc. ("Centuri" or the "construction services" segment) as of June 30, 2017. As part of the holding company reorganization effective January 2017, Centuri and Southwest are now subsidiaries of Southwest Gas Holdings, Inc.; whereas historically, Centuri had been a direct subsidiary of Southwest. Southwest Gas Holdings, Inc. and its subsidiaries (the "Company") have two business segments (natural gas operations and construction services), which are discussed below.

Southwest is engaged in the business of purchasing, distributing, and transporting natural gas for customers in portions of Arizona, Nevada, and California. Southwest is the largest distributor of natural gas in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor of natural gas in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas for customers in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County.

As of June 30, 2017, Southwest had 1,994,000 residential, commercial, industrial, and other natural gas customers, of which 1,063,000 customers were located in Arizona, 738,000 in Nevada, and 193,000 in California. Residential and commercial customers represented over 99% of the total customer base. During the twelve months ended June 30, 2017, 54% of operating margin was earned in Arizona, 35% in Nevada, and 11% in California. During this same period, Southwest earned 85% of its operating margin (gas operating revenues less the net cost of gas sold) from residential and small commercial customers, 3% from other sales customers, and 12% from transportation customers. These general patterns are expected to remain materially consistent for the foreseeable future.

Southwest recognizes operating revenues from the distribution and transportation of natural gas (and related services) to customers. Operating margin is a financial measure defined by management as gas operating revenues less the net cost of gas sold. However, operating margin is not specifically defined in accounting principles generally accepted in the United States ("U.S. GAAP"). Thus, operating margin is considered a non-GAAP measure. Management uses this financial measure because natural gas operating revenues include the net cost of gas sold, which is a tracked cost that is passed through to customers without markup under purchased gas adjustment ("PGA") mechanisms. Fluctuations in the net cost of gas sold impact revenues on a dollar-for-dollar basis, but do not impact operating margin or operating income. Therefore, management believes operating margin provides investors and other interested parties with useful and relevant information to analyze Southwest's financial performance in a rate-regulated environment. The principal factors affecting changes in operating margin are general rate relief (including impacts of infrastructure trackers) and customer growth.

The demand for natural gas is seasonal, with greater demand in the colder winter months and decreased demand in the warmer summer months. All of Southwest's service territories have decoupled rate structures (alternative revenue programs), which are designed to eliminate the direct link between volumetric sales and revenue, thereby mitigating the impacts of weather variability and conservation on operating margin, allowing Southwest to pursue energy efficiency initiatives.

Centuri is a comprehensive construction services enterprise dedicated to meeting the growing demands of North American utilities, energy and industrial markets. Centuri derives revenue from installation, replacement, repair, and maintenance of energy distribution systems, and developing industrial construction solutions primarily for energy services utilities. Centuri operates in 24 major markets in the United States (primarily as NPL) and in 3 major markets in Canada (as NPL Canada (formerly Link-Line Contractors Ltd.), and W.S. Nicholls). Construction activity is cyclical and can be significantly impacted by changes in weather, general and local economic conditions (including the housing market), interest rates, employment levels, job growth, pipe replacement programs of utilities, and local and federal regulation (including tax rates and incentives). During the past few years, utilities have implemented or modified pipeline integrity management programs to enhance safety pursuant to federal and state mandates. These programs, coupled with recent bonus depreciation tax deduction incentives, have resulted in a significant increase in multi-year pipeline replacement projects throughout the U.S. Generally, revenues are lowest during the first quarter of the year due to less favorable winter weather conditions. Revenues typically improve as more favorable weather

conditions occur during the summer and fall months. This is expected in both the U.S. and Canadian markets. In certain circumstances, such as with large bid contracts (especially those of a longer duration), or unit-price contracts with revenue caps, results may be impacted by differences between costs incurred and those anticipated when the work was originally bid. Work awarded, or failing to be awarded, by individual large customers can impact operating results.

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the notes thereto, as well as MD&A included in the 2016 Annual Report to Shareholders, which is incorporated by reference into the 2016 Form 10-K.

Executive Summary

The items discussed in this Executive Summary are intended to provide an overview of the results of the Company's operations. As needed, certain items are covered in greater detail in later sections of management's discussion and analysis. As reflected in the table below, the natural gas operations segment accounted for an average of 80% of twelve-month-to-date consolidated net income over the past two years. As such, management's discussion and analysis is primarily focused on that segment. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of results for a full year.

Summary Operating Results

	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2017	2016	2017	2016	2017	2016
	(In thousands, except per share amounts)					
<u>Contribution to net income</u>						
Natural gas operations	\$ 9,522	\$ 2,358	\$ 86,460	\$ 79,941	\$ 125,942	\$ 113,302
Construction services	8,716	6,585	1,382	4,448	29,552	32,472
Corporate and administrative	(374)	—	(670)	—	(670)	—
Net income	<u>\$ 17,864</u>	<u>\$ 8,943</u>	<u>\$ 87,172</u>	<u>\$ 84,389</u>	<u>\$ 154,824</u>	<u>\$ 145,774</u>
Average number of common shares outstanding	<u>47,571</u>	<u>47,473</u>	<u>47,550</u>	<u>47,455</u>	<u>47,516</u>	<u>47,347</u>
<u>Basic earnings per share</u>						
Consolidated	<u>\$ 0.38</u>	<u>\$ 0.19</u>	<u>\$ 1.83</u>	<u>\$ 1.78</u>	<u>\$ 3.26</u>	<u>\$ 3.08</u>
<u>Natural Gas Operations</u>						
Gas operating revenues	\$260,162	\$255,648	\$722,764	\$780,748	\$1,263,428	\$1,395,629
Net cost of gas sold	69,421	71,416	216,300	285,016	328,405	486,048
Operating margin	<u>\$190,741</u>	<u>\$184,232</u>	<u>\$506,464</u>	<u>\$495,732</u>	<u>\$ 935,023</u>	<u>\$ 909,581</u>

2nd Quarter 2017 Overview

Natural gas operations highlights:

- Benefits of Arizona rate case reflected in quarterly operating results
- 32,000 net new customers in last 12 months (1.6% growth rate)
- Depreciation and amortization expense declined \$11 million compared to the prior-year quarter
- Operating income increased \$12.2 million compared to the prior-year quarter
- Received approval to extend current rate case cycle in California
- Proposed \$66 million of accelerated pipe replacement in Nevada GIR application
- Targeting \$27 million of vintage steel pipe replacement in Arizona during 2017
- Received approval for a \$1.8 million surcharge associated with Arizona COYL program

Construction services highlights:

- Revenues increased \$8.2 million compared to the prior-year quarter
- Construction expenses increased \$8.1 million compared to the prior-year quarter
- Depreciation and amortization expense declined \$3.5 million compared to the prior-year quarter
- Completed requalification of employees affected by temporary work stoppage

Results of Natural Gas Operations

Quarterly Analysis

	Three Months Ended	
	June 30,	
	2017	2016
	(Thousands of dollars)	
Gas operating revenues	\$260,162	\$255,648
Net cost of gas sold	69,421	71,416
Operating margin	190,741	184,232
Operations and maintenance expense	102,501	98,744
Depreciation and amortization	46,254	57,232
Taxes other than income taxes	14,497	12,987
Operating income	27,489	15,269
Other income (deductions)	2,052	2,436
Net interest deductions	16,991	16,561
Income before income taxes	12,550	1,144
Income tax expense (benefit)	3,028	(1,214)
Contribution to consolidated net income	\$ 9,522	\$ 2,358

The contribution to consolidated net income from natural gas operations increased \$7.2 million between the second quarters of 2017 and 2016. The improvement was primarily due to higher operating margin and lower depreciation expense, both resulting from the recent Arizona general rate case decision.

Operating margin increased nearly \$7 million between quarters. Rate relief in Arizona (effective April 2017) and California provided \$5 million in operating margin (see **Rates and Regulatory Proceedings**). Approximately \$2 million was attributable to customer growth, as 32,000 net new customers were added during the last twelve months.

Operations and maintenance expense increased \$3.8 million, or 4%, between quarters due primarily to higher employee-related expenses and general cost increases. Employee-related expenses reflect approximately \$1.3 million of incremental costs recognized associated with the amount and timing of incentive plan grants (including accelerated recognition for retirement eligible employees).

Depreciation and amortization expense decreased \$11 million between quarters primarily due to reduced depreciation rates in Arizona, a result of the recent Arizona general rate case decision. Partially offsetting the decline was increased depreciation associated with a \$321 million, or 5%, increase in average gas plant in service for the current quarter as compared to the corresponding quarter a year ago. The increase was attributable to pipeline capacity reinforcement work, franchise requirements, scheduled and accelerated pipe replacement activities, and new infrastructure.

Taxes other than income taxes increased \$1.5 million between quarters primarily due to higher property taxes associated with net plant additions and increased property taxes in Arizona. Property taxes were also impacted by a property tax tracking mechanism enacted as part of the recently settled Arizona general rate case.

Other income, which principally includes returns on company-owned life insurance ("COLI") policies and non-utility expenses, decreased \$384,000 between quarters. The current quarter reflects \$1.9 million of COLI-related income associated with COLI policy cash surrender value increases, while the prior-year quarter reflected \$2.2 million of COLI-related income.

Net interest deductions increased \$430,000 between quarters, primarily due to the September 2016 issuance of \$300 million of senior notes, partially offset by reductions associated with the redemption of debt (\$100 million of 4.85% IDRBS in July 2016, and \$24.9 million of 4.75% IDRBS in September 2016) and lower interest expense associated with PGA balances as compared to the prior-year quarter.

Results of Natural Gas Operations

Six-Month Analysis

	<u>Six Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(Thousands of dollars)	
Gas operating revenues	\$722,764	\$780,748
Net cost of gas sold	216,300	285,016
Operating margin	506,464	495,732
Operations and maintenance expense	211,180	199,541
Depreciation and amortization	107,449	117,977
Taxes other than income taxes	29,279	27,000
Operating income	158,556	151,214
Other income (deductions)	5,663	4,191
Net interest deductions	34,201	32,791
Income before income taxes	130,018	122,614
Income tax expense	43,558	42,673
Contribution to consolidated net income	<u>\$ 86,460</u>	<u>\$ 79,941</u>

The contribution to consolidated net income from natural gas operations increased \$6.5 million between the first six months of 2017 and 2016. The improvement was primarily due to higher operating margin and lower depreciation expense, partially offset by an increase in operations and maintenance expenses.

Operating margin increased \$11 million between the comparative six-month periods. Rate relief in the Arizona and California jurisdictions provided \$6 million in operating margin (see **Rates and Regulatory Proceedings**). The remaining \$5 million increase was attributable to customer growth.

Operations and maintenance expense increased \$11.6 million, or 6%, between periods due primarily to higher employee-related expenses and general cost increases. Employee-related expenses reflect approximately \$3.9 million of incremental costs recognized associated with the amount and timing of incentive plan grants (including accelerated recognition for retirement-eligible employees).

Depreciation and amortization expense decreased \$10.5 million between periods primarily due to reduced depreciation rates in Arizona, a result of the recent Arizona general rate case decision. The depreciation decrease also included a decline of approximately \$3.5 million in amortization related to the recovery of regulatory assets. Partially offsetting the decline was depreciation associated with a \$330 million, or 6%, increase in average gas plant in service for the current period as compared to the prior period. The increase was attributable to pipeline capacity reinforcement work, franchise requirements, scheduled and accelerated pipe replacement activities, and new infrastructure.

Taxes other than income taxes increased \$2.3 million, or 8%, between periods primarily due to higher property taxes in Arizona, including the impacts of the Arizona property tax tracking mechanism.

Other income, which principally includes returns on COLI policies and non-utility expenses, increased \$1.5 million between periods. The current period reflects \$4.7 million of COLI-related income associated with COLI policy cash surrender value increases, while the prior-year period reflected \$3.1 million of COLI-related income.

Net interest deductions increased \$1.4 million between periods, primarily due to the September 2016 issuance of \$300 million of senior notes, partially offset by reductions associated with debt redemptions and lower interest expense associated with PGA balances as compared to the prior-year period.

Results of Natural Gas Operations

Twelve-Month Analysis

	<u>Twelve Months Ended June 30,</u>	
	<u>2017</u>	<u>2016</u>
	(Thousands of dollars)	
Gas operating revenues	\$ 1,263,428	\$ 1,395,629
Net cost of gas sold	328,405	486,048
Operating margin	935,023	909,581
Operations and maintenance expense	413,363	397,886
Depreciation and amortization	222,935	224,845
Taxes other than income taxes	54,655	50,982
Operating income	244,070	235,868
Other income (deductions)	9,748	3,569
Net interest deductions	68,407	65,041
Income before income taxes	185,411	174,396
Income tax expense	59,469	61,094
Contribution to consolidated net income	<u>\$ 125,942</u>	<u>\$ 113,302</u>

Contribution to consolidated net income from natural gas operations increased by \$12.6 million between the twelve-month periods of 2017 and 2016. The improvement was primarily due to higher operating margin and an increase in other income, partially offset by an increase in operations and maintenance expenses.

Operating margin increased \$25 million between periods including a combined \$11 million of rate relief in the Arizona and California jurisdictions, as well as Paiute Pipeline Company. Customer growth provided \$8 million in operating margin. Operating margin associated with recoveries of regulatory assets, infrastructure replacement mechanisms, customers outside the decoupling mechanisms, and other miscellaneous revenues improved \$6 million.

Operations and maintenance expense increased \$15.5 million, or 4%, between periods primarily due to general cost increases and higher employee-related expenses. In addition, expenses for pipeline integrity management and damage prevention programs increased (collectively, \$1 million).

Depreciation and amortization expense decreased \$1.9 million, or 1%, between periods primarily due to reduced depreciation rates in Arizona, a result of the recent Arizona general rate case decision. Largely offsetting the decline was depreciation associated with a \$345 million, or 6%, increase in average gas plant in service for the current period as compared to the prior period. The increase was attributable to pipeline capacity reinforcement work, franchise requirements, scheduled and accelerated pipe replacement activities, and new infrastructure.

Taxes other than income taxes increased \$3.7 million, or 7%, between periods primarily due to higher property taxes associated primarily with net plant additions and increased property taxes in Arizona.

Other income increased \$6.2 million between the twelve-month periods of 2017 and 2016. The current period reflects a \$9 million increase in COLI policy cash surrender values and recognized death benefits (combined), while the prior-year period reflected \$1.3 million of COLI-related income.

Net interest deductions increased \$3.4 million between periods, primarily due to the September 2016 issuance of \$300 million of senior notes. The increase was substantially offset by reductions associated with the redemption of debt (\$20 million of 5.25% IDRBs in September 2015, \$100 million of 4.85% IDRBs in July 2016, and \$24.9 million of 4.75% IDRBs in September 2016).

Results of Construction Services

Quarterly Analysis

	Three Months Ended June 30,	
	2017	2016
(Thousands of dollars)		
Construction revenues	\$ 300,307	\$ 292,100
Operating expenses:		
Construction expenses	272,001	263,926
Depreciation and amortization	11,828	15,327
Operating income	16,478	12,847
Other income (deductions)	(6)	34
Net interest deductions	1,629	1,660
Income before income taxes	14,843	11,221
Income tax expense	5,870	4,480
Net income	8,973	6,741
Net income attributable to noncontrolling interests	257	156
Contribution to consolidated net income attributable to Centuri	<u>\$ 8,716</u>	<u>\$ 6,585</u>

Contribution to consolidated net income from construction services in the current quarter increased by \$2.1 million when compared to the prior-year quarter. Increased revenues from higher volume of work and lower depreciation and amortization, as described below, contributed to the increase. Results were negatively impacted due to a temporary work stoppage by a significant customer that began in the first quarter of 2017 and continued through part of the second quarter of 2017. The temporary work stoppage was initiated due to state-mandated requalification of employees of all contractors working within the jurisdictional boundary of one state. Operations resumed gradually during the quarter following the requalification of Centuri's employees during the second quarter of 2017.

Revenues increased \$8.2 million, or 3%, in the second quarter of 2017 when compared to the prior-year quarter, primarily due to an increase in pipe replacement work with existing customers, partially offset by a decrease in revenues associated with the temporary work stoppage noted above. During the second quarter of 2017, the suspension of work resulted in a \$15.8 million reduction in revenue, compared to the prior-year quarter, and a \$100,000 pre-tax loss in the current quarter.

Construction expenses increased \$8.1 million, or 3%, between quarters due to additional pipe replacement work and higher labor costs related to the temporary work stoppage. Gains on sale of equipment (reflected as an offset to construction expenses) were approximately \$1.1 million and \$1.4 million for the second quarters of 2017 and 2016, respectively.

Depreciation and amortization decreased \$3.5 million between quarters, primarily due to a \$2.7 million reduction associated with the extension of the estimated useful lives of certain depreciable equipment during the past 12 months.

Results of Construction Services

Six-Month Analysis

	Six Months Ended June 30,	
	2017	2016
	(Thousands of dollars)	
Construction revenues	\$492,442	\$498,248
Operating expenses:		
Construction expenses	463,957	457,308
Depreciation and amortization	23,111	29,942
Operating income	5,374	10,998
Other income (deductions)	248	—
Net interest deductions	3,133	3,151
Income before income taxes	2,489	7,847
Income tax expense	1,153	3,334
Net income	1,336	4,513
Net income (loss) attributable to noncontrolling interests	(46)	65
Contribution to consolidated net income attributable to Centuri	<u>\$ 1,382</u>	<u>\$ 4,448</u>

Contribution to consolidated net income from construction services for the first six months of 2017 declined by \$3.1 million when compared to the prior-year period. Results were negatively impacted by the temporary work stoppage previously described. Poor weather during the first quarter of 2017 also negatively impacted current-period results. These impacts were partially offset by lower depreciation and amortization.

Revenues decreased \$5.8 million, or 1%, in the first six months of 2017 when compared to the prior-year period. The suspension of work during the first six months of 2017 noted above resulted in a \$26.3 million reduction in revenues, compared to the prior-year period, and a \$3.7 million pre-tax loss in the current period. Additionally, inclement weather in several operating areas negatively impacted revenues and reduced productivity in the first quarter. Increased revenues from additional pipe replacement work partially offset the other decreases.

Construction expenses increased \$6.6 million, or 1%, between periods. The increase in construction expenses is disproportionate to that noted above with regard to revenues due in part to logistics surrounding the timing and length of the temporary work stoppage with the significant customer, and to higher labor costs incurred to complete work during inclement weather conditions in the first quarter. Gains on sale of equipment (reflected as an offset to construction expenses) were approximately \$1.4 million and \$2.7 million for the first six months of 2017 and 2016, respectively.

Depreciation and amortization decreased \$6.8 million between periods, primarily due to a \$6.2 million reduction in depreciation associated with the extension of the estimated useful lives of certain depreciable equipment during the past 12 months.

Results of Construction Services

Twelve-Month Analysis

	Twelve Months Ended June 30,	
	2017	2016
	(Thousands of dollars)	
Construction revenues	\$1,133,272	\$1,074,168
Operating expenses:		
Construction expenses	1,031,072	955,332
Depreciation and amortization	48,838	58,763
Operating income	53,362	60,073
Other income (deductions)	1,441	1,067
Net interest deductions	6,645	7,086
Income before income taxes	48,158	54,054
Income tax expense	17,703	20,414
Net income	30,455	33,640
Net income attributable to noncontrolling interests	903	1,168
Contribution to consolidated net income attributable to Centuri	<u>\$ 29,552</u>	<u>\$ 32,472</u>

Contribution to consolidated net income from construction services for the twelve-month period ended June 30, 2017 decreased \$2.9 million compared to the same period of 2016. The decrease is primarily due to higher construction costs relative to increased revenues, resulting in pre-tax losses on certain projects, partially offset by a decline in depreciation and amortization.

Revenues increased \$59.1 million, or 6%, in the current twelve-month period compared to the same period of 2016 primarily due to additional pipe replacement work for existing customers. During the past several years, Centuri has focused its efforts on obtaining replacement work under both blanket contracts and incremental bid projects. For each of the twelve-month periods ended June 30, 2017 and 2016, revenues from replacement work provided over 60% of total revenues. During the fourth quarter of 2016, Centuri began work on a multi-year water pipe replacement program for a new municipal customer.

Construction expenses increased \$75.7 million, or 8% between periods, due to additional pipe replacement work, higher labor costs experienced due to changes in the mix of work with existing customers, start-up costs associated with new customer contracts, and increased operating expenses to support increased growth in operations. Additionally, the logistics surrounding the timing and length of a temporary work stoppage with a significant customer during the first six months of 2017 resulted in costs disproportionate to revenues. Gains on sale of equipment (reflected as an offset to construction expenses) were \$5.8 million and \$3.3 million for the twelve-month periods ended June 30, 2017 and 2016, respectively.

Depreciation and amortization decreased \$9.9 million between the current and prior-year periods primarily due to an \$11.5 million reduction associated with the extension of the estimated useful lives of certain depreciable equipment over the last twelve months.

Net interest deductions decreased \$441,000 between periods primarily due to lower interest rates and lower average outstanding borrowings.

Rates and Regulatory Proceedings

Arizona Jurisdiction

Arizona General Rate Case. Southwest filed a general rate application with the Arizona Corporation Commission (“ACC”) in May 2016 requesting an increase in authorized annual operating revenues of approximately \$32 million, or 4.2%, to reflect existing levels of expense and requested returns, in addition to reflecting capital investments made by Southwest since June 2010. The application requested an overall rate of return of 7.82% on an original cost rate base of \$1.336 billion, a 10.25% return on common equity, and a capital structure utilizing 52% common equity. The filing included a depreciation study that supported a proposal to reduce currently effective depreciation expense by approximately \$42 million, which was considered in the overall requested amount. This expense reduction coupled with the requested revenue increase, resulted in a net annual operating income increase request of \$74 million. A settlement was reached among several parties in December 2016 and a formal draft settlement was filed in January 2017. Hearings were held in February 2017, and the ACC approved the settlement agreement in April 2017. The settlement provides for an overall operating revenue increase of \$16 million and the capital structure and cost of capital as proposed by Southwest, with the exception of the return on common equity, which was set at 9.50%. Depreciation expense is expected to be reduced by \$44.7 million, for a combined net annual operating income increase of \$60.7 million. Other key elements of the settlement include approval of the continuation and expansion of the current Customer-Owned Yard Line (“COYL”) program (adding the ability to seek out COYLs through a targeted approach and mobilization of work crews for replacement), implementation of a vintage steel pipe replacement program, and a continuation of the current decoupled rate design, excluding a winter-period adjustment to rates, making the mechanism fundamentally similar to that which exists in Nevada. The settlement also included a property tax tracking mechanism to defer changes in property tax expense for recovery in the next general rate case. For 2017, this is expected to result in a modest increase to property tax expense and then remain relatively flat until Southwest’s next Arizona general rate case decision. New rates were effective April 2017. The settlement also includes a three-year rate case moratorium prohibiting a new application to adjust base rates from being filed prior to May 2019.

LNG (“Liquefied Natural Gas”) Facility. In January 2014, Southwest filed an application with the ACC seeking preapproval to construct, operate and maintain a 233,000 dekatherm LNG facility in southern Arizona. This facility is intended to enhance service reliability and flexibility in natural gas deliveries in the southern Arizona area by providing a local storage option, to be operated by Southwest and connected directly to its distribution system. In December 2014, Southwest received an order from the ACC granting pre-approval of Southwest’s application to construct the LNG facility and the deferral of costs, up to \$50 million. Following the December 2014 preapproval, Southwest purchased the site for the facility and completed detailed engineering design specifications for the purpose of soliciting bids for the engineering, procurement and construction (“EPC”) of the facility. Southwest solicited requests for proposals for the EPC phase of the project, and in October 2016 made a filing with the ACC to modify the previously issued Order to update the pre-approved costs to reflect a not-to-exceed amount of \$80 million, which was approved by the ACC in December 2016. Through June 2017, Southwest has incurred approximately \$6.1 million in capital expenditures toward the project (including land acquisition costs). Construction is expected to commence in September 2017 and be completed by the end of 2019.

COYL Program. Southwest received approval, in connection with an earlier Arizona general rate case, to implement a program to conduct leak surveys, and if leaks were present, to replace and relocate service lines and meters for Arizona customers whose meters were set off from the customer’s home, which is not a traditional configuration. Customers with this configuration were previously responsible for the cost of maintaining these lines and were subject to the immediate cessation of natural gas service if low-pressure leaks occurred. Effective June 2013, the ACC authorized a surcharge to recover the costs of depreciation and pre-tax return on the costs incurred to replace and relocate service lines and meters. The surcharge is revised annually as the program progresses. In 2014, Southwest received approval to add a “Phase II” component to the COYL program to include the replacement of non-leaking COYLs. In the most recent annual COYL filing made in February 2017, Southwest requested to establish an annual surcharge to collect \$1.8 million related to the revenue requirement associated with \$12.1 million in capital projects completed under both Phase I and Phase II during 2016. In June, the ACC issued a decision approving the surcharge application. All capital work completed in earlier years was incorporated in Southwest’s Arizona rate base in connection with the its recently completed general rate proceeding, as discussed above.

Vintage Steel Pipe Program. Southwest received approval, in connection with its most recent Arizona general rate case, to implement a vintage steel pipe replacement program. Southwest currently has approximately 6,000 miles of pre-1970s vintage steel pipe in Arizona. Southwest proposed to start replacing the pipe on an accelerated basis and to recover the costs through an annual surcharge filing that will be made in February of each year. The surcharge is designed to be revised annually as the program progresses. Southwest is currently targeting the replacement of nearly 40 miles of vintage steel pipe during calendar-year 2017 totaling approximately \$27 million.

California Jurisdiction

Attrition Filing. In November 2016, Southwest made its latest annual post-test year (“PTY”) attrition filing with the California Public Utilities Commission (“CPUC”), requesting annual revenue increases of \$2.1 million in southern California, \$513,000 in northern California, and \$256,000 for South Lake Tahoe. This filing was approved in December 2016 and rates were made effective in January 2017. At the same time, rates were updated to recover the regulatory asset associated with the revenue decoupling mechanism, or margin tracker.

California General Rate Case. In December 2016, Southwest filed to modify the most recent general rate case decision to extend the current rate case cycle by two years, including extension of the annual PTY attrition adjustments through 2020 from 2018. That latest rate case decision would have required Southwest to file its next general rate application by September 2017. Expedited consideration was requested and in June 2017, the CPUC approved the request, thereby extending the rate case filing deadline. Southwest believes this extension is in the public interest as it provides rate stability to customers for two additional years consistent with the current reasonable rates approved as part of the last general rate case, and the current revenue requirement and rate of return are not in need of adjustment (with the continuation of the currently approved 2.75% PTY attrition adjustment for the two additional years).

Nevada Jurisdiction

General Revenues Adjustment. In June 2016, Southwest requested authorization from the Public Utilities Commission of Nevada (“PUCN”) to adjust rates associated with its revenue decoupling mechanism (General Revenues Adjustment, or “GRA”). The filing was approved in December 2016, with rates effective January 2017. The rate adjustment is expected to refund approximately \$16.7 million during 2017. In June 2017, Southwest filed to adjust the GRA surcharge effective January 2018. This would result in a decrease in revenues of \$15.4 million, based on the overrecovered balance in the account at the end of April 2017. The filing is expected to be approved by year end. While there is no impact to net income overall from this rate adjustment, operating cash flows will be reduced as the regulatory liability balance is refunded.

Infrastructure Replacement Mechanisms. In January 2014, the PUCN approved final rules for a mechanism to defer and recover certain costs associated with accelerated replacement of infrastructure that does not otherwise currently provide incremental revenues. Associated with such mechanism, each year, Southwest files a Gas Infrastructure Replacement (“GIR”) Advance Application requesting authority to replace qualifying infrastructure and files separately as part of an annual GIR filing to reset the recovery surcharge, related to previously approved and completed projects. For projects approved in 2015 and completed in 2016, the annualized revenue was approximately \$4.5 million. In September 2016, Southwest filed to adjust the GIR surcharge to recover the annual revenue requirement for amounts previously deferred. This filing was approved in December 2016 and new rates became effective January 2017. In June 2016, Southwest filed an Advance Application for projects expected to be completed during 2017, proposing approximately \$60 million of accelerated pipe replacement to include early vintage plastic, early vintage steel, and a COYL program. The COYL program, while not large in magnitude, represents the first of its kind in Nevada, modeled after the program in place in Southwest’s Arizona jurisdiction for several years. The PUCN issued an Order on the Advance Application in October 2016, approving approximately \$57.3 million of replacement work with an annualized revenue requirement estimated at approximately \$5.3 million. With regard to the proposed COYL program, approval was granted for the northern Nevada rate jurisdiction, but consideration for the southern Nevada rate jurisdiction was deferred until 2020, at which time certain early vintage plastic pipe programs are expected to be completed.

In May 2017, Southwest filed a GIR Advance Application with the PUCN for projects totaling approximately \$66 million that are expected to be completed during 2018. Similar to previous years, the proposed projects consist of early vintage plastic and early vintage steel pipe, as well as the continuation of the previously approved COYL program in northern Nevada. Southwest recently entered into a settlement agreement with the intervening parties and filed a proposed stipulation requesting the Commission approve the settlement agreement. The settlement agreement proposes to approve the request as filed, but also authorizes Southwest to start replacing COYLs in southern Nevada in certain situations, and to recover costs through the GIR mechanism.

Subsequent to three GIR rate applications, the GIR regulations require Southwest to either file a general rate case or a request for waiver before it can file another GIR advance application. The October 2016 rate application was the third such filing by Southwest subject to these regulations, necessitating a request for waiver to permit Southwest to proceed with the GIR program without filing a general rate case in 2017. This waiver was approved by the PUCN in January 2017; however, in order to continue the GIR program in 2018, a general rate case will need to be filed before June 2018.

Conservation and Energy Efficiency (“CEE”). In June 2015, Southwest requested recovery of energy efficiency and conservation development and implementation costs, including promotions and incentives for various programs, as originally approved for deferral by the PUCN effective November 2009. While recovery of initial program costs was approved as part of the most recent general rate case, amounts incurred subsequent to May 2012 (the certification period) continued to be deferred. Approved rates for the post-May 2012 costs deferred (including previously expected program expenditures for 2016) became effective January 2016 and resulted in annualized margin increases of \$2 million in northern Nevada and \$8.5 million in southern Nevada. Then, as part of the ARA filing approved in December 2016, Southwest modified rates, effective January 2017, expected to result in annualized margin decreases of \$1.4 million in northern Nevada and \$1.3 million in southern Nevada to return over-collected balances. There is, however, no anticipated impact to net income overall from these decreases as amortization expense will also be reduced.

Federal Energy Regulatory Commission (“FERC”) Jurisdiction

2018 Expansion. In response to growing demand in the Carson City and South Lake Tahoe areas of northern California and northern Nevada, Paiute Pipeline Company (“Paiute”) evaluated shipper interest in acquiring additional transportation capacity and executed precedent agreements for incremental transportation capacity with Southwest during the third quarter of 2016. In October 2016, Paiute initiated a pre-filing review process with the FERC for an expansion project, which was approved during the same month. In July 2017, a certificate application was filed, which included an applicant environmental assessment. The project is anticipated to consist of 8.4 miles of additional transmission pipeline infrastructure at an approximate cost of \$18 million. If the process progresses as planned, a decision should be received by April 2018 and the additional facilities could be in place by the end of 2018.

PGA Filings

The rate schedules in all of Southwest’s service territories contain provisions that permit adjustments to rates as the cost of purchased gas changes. These deferred energy provisions and purchased gas adjustment clauses are collectively referred to as “PGA” clauses. Differences between gas costs recovered from customers and amounts paid for gas by Southwest result in over- or under-collections. At June 30, 2017, under-collections in Arizona and Northern Nevada resulted in an asset of approximately \$6 million and over-collections in Southern Nevada and California resulted in a liability of \$20.6 million on the Company’s and Southwest’s condensed consolidated balance sheets. Gas cost rates paid to suppliers have been higher than amounts recovered from customers during the first six months of 2017, resulting in fluctuations since December 31, 2016. Tariff rates have been adjusted in all jurisdictions during this period. Filings to change rates in accordance with PGA clauses are subject to audit by state regulatory commission staffs. PGA changes impact cash flows but have no direct impact on profit margin. However, gas cost deferrals and recoveries can impact comparisons between periods of individual consolidated income statement components. These include Gas operating revenues, Net cost of gas sold, Net interest deductions, and Other income (deductions).

The following table presents Southwest's outstanding PGA balances receivable/(payable) (thousands of dollars):

	June 30, 2017	December 31, 2016	June 30, 2016
Arizona	\$ 4,822	\$ (20,349)	\$ (33,941)
Northern Nevada	1,134	(3,339)	(14,380)
Southern Nevada	(17,741)	(66,788)	(75,440)
California	(2,887)	2,608	(2,538)
	<u>\$ (14,672)</u>	<u>\$ (87,868)</u>	<u>\$ (126,299)</u>

Capital Resources and Liquidity

Cash on hand and cash flows from operations in the past twelve months have generally provided the majority of cash used in investing activities (primarily for construction expenditures and property additions). In recent years, certain pipe replacement has been accelerated to take advantage of bonus depreciation tax incentives and to fortify system integrity and reliability, notably in association with new gas infrastructure replacement programs as discussed above. During this same time, cost savings were achieved from debt refinancing and strategic debt redemptions. The Company's capitalization strategy is to maintain an appropriate balance of equity and debt to maintain strong investment-grade credit ratings, which should minimize interest costs.

Cash Flows

Southwest Gas Holdings, Inc.:

Operating Cash Flows. Cash flows provided by consolidated operating activities decreased \$219 million in the first six months of 2017 as compared to the same period of 2016. The decline in operating cash flows was primarily attributable to the change in deferred purchased gas costs noted above, lower depreciation, and temporary changes in other working capital components. Refer to **Results of Natural Gas Operations** and **Rates and Regulatory Proceedings**.

Investing Cash Flows. Cash used in consolidated investing activities decreased \$18.8 million in the first six months of 2017 as compared to the same period of 2016. The decrease was primarily due to a prior-period outflow of \$17 million to facilitate a construction services acquisition.

Financing Cash Flows. Net cash provided by consolidated financing activities increased \$225.5 million in the first six months of 2017 as compared to the same period of 2016. The increase was primarily due to activity under the credit facility and commercial paper program (an increase in borrowings in the current-year six-month period and the repayment of borrowings in the prior-year six-month period). Dividends paid increased in the first six months of 2017 as compared to the same period of 2016 as a result of an increase in the quarterly dividend rate and an increase in the number of shares outstanding.

The Company issued approximately 101,000 additional shares of common stock collectively through the Restricted Stock/Unit Plan and the Management Incentive Plan.

Southwest Gas Corporation:

Operating Cash Flows. Cash flows provided by operating activities decreased \$190.5 million in the first six months of 2017 as compared to the same period of 2016. The decline in operating cash flows was primarily attributable to the change in deferred purchased gas costs as discussed above, which favorably impacted the prior-year six-month period, but had the opposite impact in the current six-month period. Refer to **Results of Natural Gas Operations** and **Rates and Regulatory Proceedings**.

Investing Cash Flows. Cash used in investing activities increased \$16.5 million in the first six months of 2017 as compared to the same period of 2016. The increase was primarily due to additional construction expenditures, including scheduled and accelerated pipe replacement.

Financing Cash Flows. Net cash provided by financing activities increased \$226.1 million in the first six months of 2017 as compared to the same period of 2016. The increase was primarily due to activity under the credit facility and commercial paper program (an increase in borrowings in the current-year six-month period and the repayment of borrowings in the prior-year six-month period).

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and construction services segments. Each business activity is generally responsible for securing its own financing sources.

Gas Segment Construction Expenditures and Financing

During the twelve-month period ended June 30, 2017, construction expenditures for the natural gas operations segment were \$467 million. The majority of these expenditures represented costs associated with scheduled and accelerated replacement of existing transmission, distribution, and general plant. Cash flows from operating activities of Southwest were \$319 million during this time and provided approximately 58% of construction expenditures and dividend requirements.

Southwest estimates natural gas segment construction expenditures during the three-year period ending December 31, 2019 will be between \$1.6 billion and \$1.8 billion. Of this amount, approximately \$570 million is expected to be incurred in 2017. Southwest plans to continue, as appropriate, to request regulatory support to accelerate projects that improve system flexibility and reliability (including replacement of early vintage plastic and steel pipe). This includes the recent approval to complete \$57.3 million in accelerated replacement projects in Nevada in 2017 and the \$66 million requested for 2018 in the Nevada GIR Advance Application, as well as programs included in the recently approved Arizona general rate case settlement (the continuation of the COYL program and implementation of a vintage steel pipe replacement program). Southwest may expand existing, or initiate new, programs. If efforts continue to be successful, significant replacement activities are expected to continue well beyond the next few years. See also **Rates and Regulatory Proceedings** for discussion of Nevada infrastructure, Arizona COYL, and an LNG facility. During the three-year period, cash flows from operating activities of Southwest are expected to provide approximately 60% to 70% of the funding for gas operations total construction expenditures and dividend requirements. Any additional cash requirements are expected to be provided by existing credit facilities and/or other external financing sources. The timing, types, and amounts of any additional external financings will be dependent on a number of factors, including the cost of gas purchases, conditions in the capital markets, timing and amounts of rate relief, growth levels in Southwest's service areas, and earnings. External financings could include the issuance of debt securities, bank and other short-term borrowings, and other forms of financing.

Bonus Depreciation

In December 2015, the Protecting Americans from Tax Hikes Act of 2015 ("PATH Act") was enacted extending the 50% bonus depreciation tax deduction for qualified property acquired or constructed and placed in-service during 2015 (and additional years as noted below) as well as other tax deductions, credits, and incentives. The bonus depreciation tax deduction will be phased out over five years. The PATH Act provides for a 50% bonus depreciation tax deduction in 2015 through 2017, 40% in 2018, 30% in 2019, and no deduction after 2019. Based on forecasted qualifying construction expenditures, Southwest estimates the bonus depreciation provision of the PATH Act will defer the payment of approximately \$21 million of federal income taxes for 2017.

Dividend Policy

Dividends are payable on the Company's common stock at the discretion of the Board of Directors ("Board"). In setting the dividend rate, the Board considers, among other factors, current and expected future earnings levels, our ongoing capital expenditure plans and expected external funding needs, our payout ratio, and our ability to maintain strong credit ratings and liquidity. The Company has paid dividends on its common stock since 1956 and has increased that dividend each year since 2007. In February 2017, the Board elected to increase the quarterly dividend from \$0.45 to \$0.495 per share, representing a 10% increase, effective with the June 2017 payment. The Board currently targets a payout ratio of 55% to 65% of consolidated earnings per share.

Liquidity

Liquidity refers to the ability of an enterprise to generate sufficient amounts of cash through its operating activities and external financing to meet its cash requirements. Several general factors (some of which are out of the control of the Company) that could significantly affect liquidity in future years include: variability of natural gas prices, changes in the ratemaking policies of regulatory commissions, regulatory lag, customer growth in the natural gas segment's

service territories, the ability to access and obtain capital from external sources, interest rates, changes in income tax laws, pension funding requirements, inflation, and the level of earnings. Natural gas prices and related gas cost recovery rates have historically had the most significant impact on liquidity.

On an interim basis, Southwest defers over- or under-collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At June 30, 2017, the combined balance in the PGA accounts totaled an over-collection of \$14.7 million. See **PGA Filings** for more information.

In March 2017, Southwest Gas Holdings, Inc. entered into a credit facility with a borrowing capacity of \$100 million that expires in March 2022. The Company intends to utilize this facility for short-term financing needs. At June 30, 2017, \$2.5 million was outstanding on this facility.

In March 2017, Southwest Gas Corporation amended its credit facility, increasing the borrowing capacity from \$300 million to \$400 million, and extended the term of the facility from March 2021 to March 2022. Southwest continues to designate \$150 million of the facility for long-term borrowing needs and the remaining \$250 million for working capital purposes. The maximum amount outstanding on the credit facility (including a commercial paper program, as noted below) during the first six months of 2017 was \$92 million, which was also the amount outstanding on the long-term portion of the credit facility at June 30, 2017. The credit facility can be used as necessary to meet liquidity requirements, including temporarily financing under-collected PGA balances, if any, or meeting the refund needs of over-collected balances. This credit facility has been adequate for Southwest's working capital needs outside of funds raised through operations and other types of external financing.

Southwest has a \$50 million commercial paper program. Any issuance under the commercial paper program is supported by Southwest's current revolving credit facility and, therefore, does not represent additional borrowing capacity. Any borrowing under the commercial paper program will be designated as long-term debt. Interest rates for the commercial paper program are calculated at the current commercial paper rate during the borrowing term. At June 30, 2017, no borrowings were outstanding under this program.

Centuri has a \$300 million secured revolving credit and term loan facility that is scheduled to expire in October 2019. The term loan facility portion had an initial limit of approximately \$150 million, which was reached in 2014 and is in the process of being repaid (\$106 million was outstanding at June 30, 2017). No further borrowing is permitted under this portion of the facility. The secured revolving credit facility portion also has a limit of \$150 million; amounts borrowed and repaid under this portion of the facility are available to be re-borrowed. The maximum amount outstanding on the credit facility during the first six months of 2017 was \$100 million, which was the amount outstanding at June 30, 2017. At June 30, 2017, there was approximately \$36 million, net of letters of credit, available under the line of credit.

The following table sets forth the ratios of earnings to fixed charges for the Company. Due to the seasonal nature of the Company's business, these ratios are computed on a twelve-month basis:

	<u>For the Twelve Months Ended</u>	
	<u>June 30,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Ratio of earnings to fixed charges	3.42	3.46

Earnings are defined as the sum of pretax income plus fixed charges. Fixed charges consist of all interest expense including capitalized interest, one-third of rent expense (that approximates the interest component of such expense), and net amortized debt costs.

Forward-Looking Statements

This quarterly report contains statements which constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (“Reform Act”). All statements other than statements of historical fact included or incorporated by reference in this quarterly report are forward-looking statements, including, without limitation, statements regarding the Company’s plans, objectives, goals, intentions, projections, strategies, future events or performance, and underlying assumptions. The words “may,” “if,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “project,” “continue,” “forecast,” “intend,” “promote,” “seek,” and similar words and expressions are generally used and intended to identify forward-looking statements. For example, statements regarding operating margin patterns, customer growth, the composition of our customer base, price volatility, seasonal patterns, payment of debt, interest savings, the Company’s COLI strategy, replacement market and new construction market, bonus depreciation tax deductions, amount and timing for completion of estimated future construction expenditures, including the LNG facility in southern Arizona, the cost of the 2018 Paiute expansion project in northern Nevada and northern California, forecasted operating cash flows and results of operations, net earnings impacts from gas infrastructure replacement surcharges, funding sources of cash requirements, amounts generally expected to be reflected in 2017 or future period revenues from regulatory rate proceedings including amounts resulting from the settled Arizona general rate case, rates and surcharges, PGA, and other rate adjustments, sufficiency of working capital and current credit facilities, bank lending practices, the Company’s views regarding its liquidity position, ability to raise funds and receive external financing capacity and the intent and ability to issue common stock under the Equity Shelf Program, future dividend increases and the Board’s current target dividend payout ratio, pension and post-retirement benefits, certain benefits of tax acts, the effect of any rate changes or regulatory proceedings, impacts of accounting standard updates, infrastructure replacement mechanisms and the COYL program, statements regarding future gas prices, gas purchase contracts and derivative financial instruments, recoverability of regulatory assets, the impact of certain legal proceedings, and the timing and results of future rate hearings and approvals are forward-looking statements. All forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act.

A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, customer growth rates, conditions in the housing market, the ability to recover costs through the PGA mechanisms or other regulatory assets, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, variability in volume of gas or transportation service sold to customers, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, changes in construction expenditures and financing, changes in operations and maintenance expenses, effects of pension expense forecasts, accounting changes, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, results of Centuri bid work, Centuri construction expenses, differences between actual and originally expected outcomes of Centuri bid or other fixed-price construction agreements, and ability to successfully procure new work, impacts from work awarded or failing to be awarded from significant customers, the mix of work awarded, the amount of work awarded to Centuri following the lifting of the recent work stoppage, acquisitions and management’s plans related thereto, competition, our ability to raise capital in external financings, our ability to continue to remain within the ratios and other limits subject to our debt covenants, and ongoing evaluations in regard to goodwill and other intangible assets. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing and operating expenses will continue in future periods. For additional information on the risks associated with the Company’s business, see **Item 1A. Risk Factors** and **Item 7A. Quantitative and Qualitative Disclosures About Market Risk** in the Annual Report on Form 10-K for the year ended December 31, 2016.

All forward-looking statements in this quarterly report are made as of the date hereof, based on information available to the Company as of the date hereof, and the Company assumes no obligation to update or revise any of its forward-looking statements even if experience or future changes show that the indicated results or events will not be realized. **We caution you not to unduly rely on any forward-looking statement(s).**

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See **Item 7A. Quantitative and Qualitative Disclosures about Market Risk** in the 2016 Annual Report on Form 10-K filed with the SEC. No material changes have occurred related to the disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

Management of Southwest Gas Holdings, Inc. and Southwest Gas Corporation has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) that are designed to provide reasonable assurance that information required to be disclosed in their respective reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to management of each company, including each respective Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and benefits of controls must be considered relative to their costs. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

Based on the most recent evaluation, as of June 30, 2017, management of Southwest Gas Holdings, Inc., including the Chief Executive Officer and Chief Financial Officer, believe the Company's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the second quarter of 2017 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

Based on the most recent evaluation, as of June 30, 2017, management of Southwest Gas Corporation, including the Chief Executive Officer and Chief Financial Officer, believe Southwest's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in Southwest's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the second quarter of 2017 that have materially affected, or are likely to materially affect Southwest's internal controls over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is named as a defendant in various legal proceedings. The ultimate dispositions of these proceedings are not presently determinable; however, it is the opinion of management that none of this litigation individually or in the aggregate will have a material adverse impact on the Company's financial position or results of operations.

ITEMS 1A through 3. None.

ITEM 4. MINE SAFETY DISCLOSURES Not applicable.

ITEM 5. OTHER INFORMATION None.

ITEM 6. EXHIBITS

The following documents are filed, or furnished, as applicable, as part of this report on Form 10-Q:

Exhibit 10.01*	—	Centuri Employment Agreement with Paul Daily, Chief Executive Officer.
Exhibit 10.02*	—	Centuri/NPL Executive Deferred Compensation Plan.
Exhibit 10.03*	—	Centuri Long-term Capital Investment Program.
Exhibit 10.04*	—	Centuri Short-term Incentive Program.
Exhibit 10.05*	—	Southwest Gas Holdings, Inc. Omnibus Incentive Plan. Incorporated herein by reference to Appendix B to the Proxy Statement dated March 27, 2017, File No. 1-37976.
Exhibit 12.01	—	Computation of Ratios of Earnings to Fixed Charges – Southwest Gas Holdings, Inc.
Exhibit 31.01	—	Section 302 Certifications–Southwest Gas Holdings, Inc.
Exhibit 31.02	—	Section 302 Certifications–Southwest Gas Corporation.
Exhibit 32.01	—	Section 906 Certifications–Southwest Gas Holdings, Inc.
Exhibit 32.02	—	Section 906 Certifications–Southwest Gas Corporation.
Exhibit 101.INS	—	XBRL Instance Document
Exhibit 101SCH	—	XBRL Schema Document
Exhibit 101.CAL	—	XBRL Calculation Linkbase Document
Exhibit 101.DEF	—	XBRL Definition Linkbase Document
Exhibit 101.LAB	—	XBRL Label Linkbase Document
Exhibit101.PRE	—	XBRL Presentation Linkbase Document

* Management Incentive Plans

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 thereunto duly authorized.

Southwest Gas Holdings, Inc.
(Registrant)

Date: August 8, 2017

/s/ GREGORY J. PETERSON

Gregory J. Peterson
Vice President/Controller and Chief Accounting Officer

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 thereunto duly authorized.

Southwest Gas Corporation
(Registrant)

Date: August 8, 2017

/s/ GREGORY J. PETERSON

Gregory J. Peterson
Vice President/Controller and Chief Accounting Officer

EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into between Centuri Construction Group, Inc. ("Centuri") and Paul M. Daily ("Employee") on this 18th day of April, 2016 (the "Effective Date"). For purposes of this Agreement, "Employer" shall mean Centuri or any other affiliated entity that is deemed to be the employer of Employee, and "Employer Group" shall mean Centuri and its predecessors, successors, and past, present and future operating companies, divisions, subsidiaries and/or affiliates.

I. RECITALS

WHEREAS, Centuri has offered to Employee, subject to the terms and conditions of this Agreement, employment in the position of President and Chief Executive Officer of Centuri and Employee has agreed to accept such employment pursuant to the terms and conditions hereof.

NOW, THEREFORE, in consideration of the promises and obligations of Employer and Employee under this Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Employer and Employee hereby agree as follows:

II. TERMS OF EMPLOYMENT

A. Position and Duties. Employee is hereby employed by Employer as President and Chief Executive Officer. Employee shall have the primary responsibilities, duties and authority described in Exhibit A hereto, as the same may be modified from time to time by the Board of Directors of Centuri ("Board") or the Chairman of the Board in their discretion in a manner consistent with Employee's position. Employee shall devote his full business time, attention and effort to the performance of this Agreement and to his duties as described herein.

1. Employee shall faithfully adhere to, execute and fulfill the duties described in Exhibit A hereto, as in effect from time to time, and any such other duties as shall be assigned to Employee from time to time by the Board or the Chairman of the Board.

2. Employee agrees to devote full business time, attention and effort to the business and affairs of Employer, to discharge the responsibilities assigned to Employee hereunder, and to use Employee's reasonable best efforts to perform faithfully and efficiently such responsibilities.

3. Employee shall not, during the term of his employment, be engaged in any other business activity pursued for gain, profit or other pecuniary advantage if such activity interferes with Employee's duties and responsibilities to Employer. The foregoing limitations shall not be construed as prohibiting Employee from serving on corporate, civic or charitable boards or committees, delivering lectures or fulfilling speaking engagements, teaching at educational institutions, or making personal investments, so long as (i) such activities do not significantly interfere with the performance of Employee's responsibilities to Employer as set forth in this Agreement or present a conflict of interest and (ii) any outside board position is approved by the Chairman of the Board.

4. In the performance of his duties, Employee shall use his best efforts to adhere to the legal requirements codified in statutes, ordinances and governmental regulations applicable to Employer.

B. Term. The initial term of this Agreement shall begin on the Effective Date and shall continue until April 18, 2018, unless terminated sooner pursuant to the provisions of this Agreement (the "Initial Term"). At the expiration of the Initial Term, unless terminated sooner pursuant to the provisions of this Agreement, and each annual anniversary thereafter, this Agreement will renew automatically for an additional one (1) year period (the "Renewal Term") unless either party notifies the other party in writing of its or his intention not to renew this Agreement (the "Renewal Termination Notice") not less than six (6) months prior to the expiration of the Initial Term or of any Renewal Term (the Initial Term and any Renewal Term are referred to collectively as the "Term").

1. Termination upon Death. This Agreement (and all of Employee's rights and Employer's obligations hereunder except as provided for in Employer's welfare benefit or incentive plans that Employee participates in at time of death) shall terminate as of the date of Employee's death.

2. Termination upon Disability. If Employee becomes Disabled as defined herein, Employer may, by written notice to Employee, terminate this Agreement and Employee's employment hereunder. For purposes of this Agreement, "Disabled" or "Disability" means, as determined by the Board, that (i) Employee is unable to engage in any substantial gainful activity by reason of a physical or mental impairment that is expected to result in death or last twelve (12) months or more, or Employee receives replacement income for three (3) months or more due to such physical or mental impairment or (ii) such other definition that complies with the definition of disability under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder.

3. Termination for Cause. Employer may terminate this Agreement and Employee's employment hereunder for Cause by providing written notice to Employee of its intention to do so. For purposes of this Agreement, "Cause" shall mean:

a) Employee's negligence in the performance of, intentional nonperformance of, or inattention to his material duties and responsibilities hereunder, any of which continue for five (5) business days after receipt of written notice of need to cure the same;

b) Employee's willful dishonesty, fraud or material misconduct with respect to the business or affairs of Employer;

c) the violation by Employee of any of Employer's policies or procedures, which violation is not cured by Employee within five (5) business days after Employee has been given written notice thereof;

d) a conviction of, a plea of nolo contendere, a guilty plea, or confession by Employee to, an act of fraud, misappropriation or embezzlement or any crime punishable as a felony or any other crime that involves moral turpitude;

e) Employee's use of illegal substances or habitual drunkenness; or

f) the breach by Employee of this Agreement if Employee does not cure such breach within five (5) business days after Employee has been given written notice thereof.

4. Termination for Good Reason. Employee may terminate this Agreement and his employment hereunder for Good Reason in the twenty-four (24) months following a Change in Control by providing written notice to Employer of his intention to do so. For purposes of this Agreement, "Good Reason" shall mean:

a) the assignment to Employee of any duties inconsistent with Employee's position (including offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section II.A of this Agreement and as in effect immediately prior to the Change in Control, or any other action by Employer that results in a diminution in such position, authority, duties or responsibilities (excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith);

b) any material breach of this Agreement by Employer, including any requirement that Employee be based at any office or location that results in a violation of Section II.E of this Agreement;

c) any failure by Employer to comply with any of the provisions of Section III of this Agreement (excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith);

d) any failure by Employer to continue in effect any cash or stock-based incentive or bonus plan, retirement plan, welfare benefit plan or other compensation, retirement or benefit plan and policy, unless the aggregate value (as computed by an independent employee benefits consultant selected by Employer and reasonably acceptable to Employee or Employee's legal representative) of all such compensation, retirement or benefit plans and policies provided to Employee is not materially less than their aggregate value as in effect at any time during the one hundred twenty (120) day period immediately preceding a Change in Control or, if more favorable to Employee, those provided generally at any time after the Change in Control to other peer employees of Employer and its affiliated companies;

e) Employee's receipt from Employer of a Renewal Termination Notice as provided in Section II.B; and

f) in the event of a pending Change in Control, Employer and Employee have not received written notice at least five (5) business days prior to the anticipated closing date of the transaction giving rise to the Change in Control from the successor to all or a substantial portion of the Employer Group's business and/or assets that such successor is willing as of the closing to assume and agree to perform Employer's obligations under this Agreement in the same manner and to the same extent that Employer is hereby required to perform.

Employee must provide written notice to Employer of the existence of the condition(s) described in Section II.B.4.a through Section II.B.4.d above within 90 days of the initial existence of the condition(s). Employer shall have 30 days after such notice is given during which to remedy the condition(s), and such occurrence shall not be deemed to constitute Good Reason if such event or circumstance has been fully corrected by Employer within the 30 day cure period and Employee has been reasonably compensated for monetary losses or damages resulting therefrom.

For purposes of this Agreement, "Change in Control" shall mean (1) the sale (other than to a member of the Employer Group) of substantially all of the operating assets of (a) Centuri and its subsidiaries or (b) the Parent Company and its subsidiaries, (2) the acquisition (other than by a member of the Employer Group) of more than fifty percent (50%) of the stock of Centuri by a group of shareholders or an entity which acquires control of Centuri, (3) a merger or consolidation of Centuri with any other entity, other than a merger or consolidation which would result in the voting securities of Centuri outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) fifty percent (50%) or more of the total voting power represented by the voting securities of Centuri or such surviving entity outstanding immediately after such merger or consolidation, (4) a merger or consolidation of Parent Company with any other entity, other than a merger or consolidation which would result in the voting securities of Parent Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) fifty percent (50%) or more of the total voting power represented by the voting securities of Parent Company or such surviving entity outstanding immediately after such merger or consolidation, (5) any "person" (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), but excluding any person described in and satisfying the conditions of Rule 13d-1(b)(1) thereunder), becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Parent Company representing more than 30% of the combined voting power of the Parent Company's then outstanding securities entitled to then vote generally in the election of directors of the Parent Company, or (6) during any period not longer than two (2) consecutive years, individuals who at the beginning of such period constituted the board of directors of the Parent Company cease to constitute at least a majority thereof, unless the election, or the nomination for election by the Parent Company's shareholders, of each new board member was approved by a vote of at least three-fourths (3/4) of the board members then still in office who were board members at the beginning of such period (including for these purposes, new members whose election was so approved). For purposes of this Agreement, "Parent Company" shall mean Southwest Gas Corporation or, following the reorganization described in Southwest Gas Corporation's Form 8-K filed with the Securities and Exchange Commission on October 13, 2015, the new publicly traded holding company that will directly or indirectly hold majority equity interests of Southwest Gas Corporation and Centuri. It is expressly understood that the reorganization described in such Form 8-K will not constitute a Change in Control.

C. Notice of Termination. Any termination by Employer for Cause or Disability or by Employee for Good Reason shall be communicated by a Notice of Termination provided to the other party pursuant to the provisions of Section VIII.C of this Agreement. For purposes of this Agreement, "Notice of Termination" means a written notice that: (1) indicates the specific termination provision or provisions as set forth in this Agreement relied upon by either Employer or Employee; (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide the basis for termination under the provision or provisions of this Agreement relied upon by either Employer or Employee; and (3) if the Date of Termination (as defined below) is other than the date of receipt of such Notice of Termination, specifies the termination date. The failure by either Employer or Employee to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Cause or Good Reason shall not waive any right of Employer or Employee or preclude Employer or Employee from asserting such fact or circumstance in enforcing Employer's or Employee's rights or obligations under this Agreement.

D. Date of Termination. According to this Agreement, "Date of Termination" shall mean: (1) if Employee's employment is terminated for Cause or Disability, or by Employee for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein or as required under this Agreement; (2) if Employee's employment is terminated by Employer other than for Cause or Disability, the Date of Termination shall be the date on which Employer notifies Employee of such termination; (3) if Employee's employment is terminated by reason of death, the Date of Termination shall be the date of the death of Employee; or (4) if Employee voluntarily terminates his employment, the Date of Termination shall be the date on which Employee and Employer shall agree to be the Date of Termination.

E. Place of Performance. Nothing contained in this Agreement shall be deemed to require Employee to relocate from Phoenix, Arizona to another geographic location in order to carry out Employee's duties and responsibilities under this Agreement, other than normal business travel consistent with Employee's duties, responsibilities and position.

F. Representation. Employee represents and warrants to Centuri that Employee is not bound by any covenant not to compete or similar agreement that would prohibit Employee from performing, or would restrict or limit Employee in Employee's performance of, Employee's job duties for Centuri. Employee shall indemnify and hold harmless Employer Group and its officers, managers, members, agents and representatives from and against any damages, losses, claims, costs (including attorneys' fees) incurred by any of them arising out of or resulting from any breach of the foregoing representation and warranty by Employee. Centuri acknowledges that Employee is subject to a non-solicitation of IEA employees until September 3, 2016.

III. COMPENSATION

A. Annual Base Salary. Employer agrees to compensate and pay Employee, or to cause Employee to be compensated and paid no less than, an annual base salary of \$475,000, payable on a regular basis in accordance with Employer's standard payroll procedures but not less frequently than monthly.

On at least an annual basis, the Board or a duly constituted committee thereof will review Employee's performance and may make increases to Employee's annual base salary if, in its sole discretion, any such increase is warranted.

B. Bonus. Employee shall participate in Employer's short-term, long-term and supplemental incentive bonus plans (as applicable) at a level commensurate with Employee's position. Employee's target cash award opportunity is 120% of base salary for the Short-Term Incentive Plan and 50% of base salary for the Long Term Incentive Plan, subject to the provisions contained in the plan documents, copies of which have been provided to Employee. Employee may participate in other current and future incentive bonus plans as determined by the Board or a duly constituted committee thereof. During his first thirty (30) days of employment, Employee must elect to have his Short-Term Incentive Plan payout for fiscal year 2016 either fixed at target or based on actual performance results for 2016 (which could cause the payout to be above or below target). The election must be provided in writing to the Chairman of the Board. If no election is timely made, the Short-Term Incentive Plan will payout based on actual performance results for 2016. In either case, the 2016 payment will be prorated to nine (9) months.

C. Incentive, Savings and Retirement Plans; Perquisites; LTCIP Contributions. Employee shall be entitled to participate in all incentive, deferred compensation, savings and retirement plans, perquisites, practices, policies and programs generally applicable to other peer employees of Employer. Employee is required to participate in the Long-Term Capital Investment Plan ("LTCIP"). The LTCIP currently requires Employee to invest at least fifty percent (50%) of his short-term incentive until he meets the established investment requirement. On both the first and second anniversaries of Employee's hire date, if Employee is still employed by Employer, Centuri will deposit \$237,500 into Employee's LTCIP account. The Centuri contribution will count toward the total investment requirement, but it does not negate Employee's obligation to contribute at least fifty percent (50%) of his short-term incentive each year until the investment requirement is met. During the Initial Term, Employer shall provide Employee an annual vehicle allowance of no less than \$23,400 with the business cost of gasoline paid by the Company, social club membership consistent with its existing policies, \$5,000 allowance every 3 years for basic estate and financial planning (not to be used for income tax filings). Following the Initial Term, any vehicle allowance, social club membership or basic estate and financial planning allowance will be based on current Centuri policies then in effect.

D. Welfare Benefit Plans. Employee and Employee's eligible dependents shall receive coverage under the welfare benefit plans, practices, policies and programs provided by Employer including, but not limited to, medical, prescription, dental, disability, group life (no less than \$500,000 life insurance coverage paid by Employer for Employee), accidental death and travel accident insurance plans and programs, generally applicable to other peer employees of Employer, the terms and conditions of which shall be no less favorable than those available to other similarly situated officers of Employer. Employee will be entitled to no less than four (4) weeks of annual vacation.

E. Reimbursement of Expenses. Employer shall reimburse Employee or cause Employee to be promptly reimbursed for all reasonable and necessary expenses incurred by Employee in furtherance of the business and affairs of the Employer Group including, but not

limited to, all travel expenses and living expenses while away from home on business or at the request of Employer or the Board. Such reimbursement shall be effected as soon as reasonably practicable after such expenditures are made, against presentation of signed, itemized expense reports in accordance with the travel and business expense reimbursement policies of Employer. This provision does not apply to relocation expenses.

F. Relocation. In lieu of reimbursement under the Employer's relocation policy, Employer will pay Employee \$150,000, payable in \$50,000 installments following each of the first three (3) months of Employee's employment. If Employee's employment hereunder terminates for any reason other than his death or disability or termination by Employer without Cause during the Initial Term, Employee agrees to promptly reimburse Centuri for a portion of the \$150,000 payment, based on the following fraction: the number of months remaining in the Initial Term as of the Date of Termination over twenty-four (24) months.

G. Severance Benefits upon Termination. As set forth below, the following obligations are imposed upon Employer upon termination of this Agreement; provided, however, that to be entitled to such severance benefits, Employee will be required to execute, and not revoke, a Confidential Severance Agreement and Release provided by Employer as more fully described in Section III.J below.

1. Death. If Employee's employment is terminated due to his death, Employee shall not be entitled to any severance benefits under the terms of this Agreement.

2. Disability. If Employee's employment is terminated due to his Disability, Employee shall be entitled to severance benefits equal to one (1) year of Employee's annual base salary. Subject to Employee's compliance with the requirements of Section III.J below, such severance benefits shall be paid to Employee in a lump-sum payment within sixty (60) days of the Date of Termination.

3. Cause. If Employee's employment is terminated for Cause as defined under this Agreement, Employee shall not be entitled to any severance benefits under the terms of this Agreement except for payment of amounts of Base Salary accrued through the termination date.

4. Without Cause. If Employee's employment is terminated by Employer without Cause (other than within the twenty-four (24) months following a Change in Control), Employee shall be entitled to severance benefits equal to two (2) years of Employee's annual base salary plus payment of any unpaid Short-Term Incentive Plan bonus from the year prior to the year of termination, and for a period of two (2) years following Employee's termination continuation of medical, dental and vision benefit coverage for Employee and Employee's dependents at least equal to those that would have been provided to the same in accordance with the plans, programs, practices and policies described in Section III.D of this Agreement if Employee's employment had not been terminated or, if more favorable to Employee, as in effect generally at any time thereafter with respect to other peers of Employee; provided, however, that if Employee becomes reemployed with another employer and is eligible to

receive medical, dental or vision benefits under another employer provided plan, the medical, dental and vision benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. Subject to Employee's compliance with the requirements of Section III.J below, payment in respect of base salary shall be paid to Employee in a lump-sum payment within sixty (60) days of the Date of Termination. In the event that Employee is entitled to receive severance benefits under Section III.H, Employee will not be entitled to receive severance benefits under this Section.

5. Resignation by Employee. If Employee resigns his employment, Employee shall not be entitled to any severance benefits under the terms of this Agreement unless (i) Employer is in material breach of the provisions of Section III.A through III.F of this Agreement taken as a whole (excluding for this purpose any isolated, insubstantial and inadvertent action not taken in bad faith; (ii) Employee is required to relocate from Phoenix, Arizona inconsistent with Section II.E.; (iii) during the Initial Term of this Agreement John P. Hester ceases to serve in the capacity of Chief Executive Officer of the Parent Company of Centuri and Employee resigns for Good Reason within twelve (12) months of Mr. Hester's termination as Chief Executive Officer; or (iv) Employee resigns his employment for Good Reason within the twenty-four (24) months following a Change in Control as described in Section III.H below. If Employee's resignation is not subject to Section III.H. below and is due to events described in (i), (ii) or (iii) of this paragraph, Employee shall be entitled to severance benefits as described in Section II.G.4.

H. Severance Benefits upon Change in Control. Employee shall be entitled to the severance benefits provided in this Section III.H if, within twenty-four (24) months after a Change in Control: (i) the Employee terminates his employment with the Employer for Good Reason or (ii) Employee's employment is terminated by the Employer for any reason other than (x) Employee's death, (y) Employee's Disability or (z) Cause:

1. Any restricted stock awards, restricted stock units, stock options, stock appreciation rights or performance shares to purchase or relating to the Employer Group held by the Employee on the date of such termination, which are not then currently vested or exercisable, shall on such date automatically become vested or exercisable and shall remain exercisable for ninety (90) days thereafter (subject to any fixed term of such award, unit, option, right or share set forth in the document evidencing such award, unit, option, right or share).

2. A lump-sum severance payment equal to the sum of:

(a) twenty-four (24) months of the Employee's yearly base salary in effect as of the date of such termination or, if greater, as of the date of such Change in Control, and

(b) an amount equal to any incentive compensation that would be payable to the Employee under any short-term incentive compensation plan of Centuri, calculated at the designated award opportunity for the Employee at the Date of Termination or, if greater, as of the date of such Change in Control, and at 100% of the target, for the period during the applicable plan year preceding the date of such termination and for the severance period of twenty-four (24) months following the date of such termination (such post-termination period, the "Severance Period"), and

(c) an amount equal to any incentive compensation that would be payable to the Employee under any long-term incentive compensation plan of Centuri, calculated at the designated award opportunity for the Employee at the Date of Termination or, if greater, as of the date of such Change in Control, for the period during the applicable plan years preceding the date of such termination as if Employee was retirement eligible under the applicable plan and for the Severance Period at two (2) times target for the most recent three-year cycle (i.e. \$475,000 using base salary, target and award opportunity at the time of execution of this Agreement), and

(d) an amount equal to the full cost of health and dental coverage for Employee (and his eligible dependents) for the Severance Period, which amount shall be calculated based on the full cost of continued health and dental coverage for Employee (and his eligible dependents) under the Consolidated Omnibus Budget Reconciliation Act of 1986, as amended, as of the date of termination or, if greater, as of the date of such Change in Control, and

(e) an amount equal to the full cost of replacement disability and life insurance coverage for Employee (other than travel/accident) for the Severance Period, which cost shall be calculated as of the Date of Termination or, if greater, as of the date of such Change in Control.

Subject to the limits in Section III.I. below, payment of the foregoing lump-sum severance payment shall be made in accordance with Centuri's regular payroll procedures and be made to Employee on the first regularly scheduled Centuri executive pay date that occurs sixty (60) days after the termination of Employee's employment.

3. Centuri shall pay Employee any benefits under Centuri's benefit plans, which are fully vested on the date of such termination, in accordance with their terms, including with respect to applicable payment schedules and any applicable elections.

4. Employee shall be entitled to reimbursement of reasonable expenses actually incurred by Employee directly related to outplacement services, which reimbursement shall not exceed Thirty Thousand Dollars (\$30,000). Such reimbursement shall only be made for outplacement services directly related to such termination. Such expenses must be incurred not later than the end of the second calendar year following the calendar year of such termination. Such expense must be submitted by Employee to Centuri as promptly as practicable, and in no event later than required by Centuri in order for Centuri to make such reimbursement no later than last day of the third calendar year following the calendar year in which such termination occurs. In no event shall Centuri make any such reimbursement later than the last day of the third calendar year following the calendar year in which such termination occurs.

5. If Employee's employment is terminated by Employer prior to the occurrence of a Change in Control, and if it can be shown that Employee's termination (a) was at the direction or request of a third party that had taken steps reasonably calculated to effect the Change in Control thereafter, or (b) otherwise occurred in connection with, or in furtherance of, the Change in Control, Employee shall have the rights described in this Section III.H above, as if a Change in Control had occurred on the date immediately preceding such termination.

6. Limitation on Severance Benefits. Anything in this Agreement to the contrary notwithstanding, in the event that it shall be determined (as herein after provided) that any payment or distribution by Employer or any of its affiliates to or for the benefit of Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise pursuant to or by reason of any other agreement, policy, plan, program, or arrangement including, without limitation, any stock option, restricted stock, stock appreciation right or similar right, or the lapse or termination of any restriction on, or the vesting or exercisability of, any of the foregoing (individually and collectively, a "Payment"), would be subject, but for the application of this Section III.H.6 to the excise tax imposed by Section 4999 of the Code, or any successor provision thereto (hereinafter the "Excise Tax"), by reason of being considered "contingent on a change in ownership or control" of Employer, within the meaning of Section 280G(b)(2) of the Code, or any successor provision thereto, then:

a) if the After-Tax Payment Amount would be greater by reducing the amount of the Payment otherwise payable to Employee to the minimum extent necessary (but in no event less than zero) so that, after such reduction, no portion of the Payment would be subject to the Excise Tax, then the Payment shall be so reduced; and

b) if the After-Tax Payment Amount would be greater without the reduction then there shall be no reduction in the Payment.

As used in this Section III.H.6, "After-Tax Payment Amount" means (i) the amount of the Payment, less (ii) the amount of federal income taxes payable with respect to the Payment calculated at the maximum marginal income tax rate for each year in which the Payment shall be paid to Employee (based upon the rate in effect for such year as set forth in the Code at the time of the Payment), less (iii) the amount of the Excise Tax, if any, imposed upon the Payment. For purposes of any reduction made under Section III.H.2, the Payments that shall be reduced shall be those that provide Employee the best economic benefit, and to the extent any Payments are economically equivalent, each shall be reduced pro rata.

I. Compliance with Section 409A of the Code. The payments to be made under this Agreement are intended to be exempt from or compliant with Section 409A of the Code. Specifically, the severance payments and benefits under Section III.G and Section III.H hereof are intended to be exempt from Section 409A of the Code by compliance with the short-term deferral exemption as specified in 26 C.F.R. Section 1.409A-1(b)(4) and/or the separation pay exemption as specified in 26 C.F.R. Section 1.409A-1(b)(9) or are intended to comply with Section 409A of the Code including, but not limited to, being paid upon disability pursuant to 26 C.F.R. Section 1.409-3(i)(4), pursuant to change in control event pursuant to 26 C.F.R. Section 1.409A-3(i)(5) or pursuant to a fixed schedule or specified date pursuant to 26 C.F.R. Section 1.409A-3(a), and the provisions of this Agreement will be administered, interpreted and construed accordingly. Notwithstanding the foregoing, Employer makes no representation or warranty and shall have no liability to Employee or any other person if any provisions of this Agreement are determined to constitute deferred compensation subject to Section 409A of the Code and do not satisfy an exemption from, or the conditions of, Section 409A of the Code.

For all purposes of this Agreement, Employee shall be considered to have terminated employment with Employer when Employee incurs a “separation from service” with the Employer Group within the meaning of Section 409A(a)(2)(A)(i) of the Code.

If Centuri determines that severance payments due under this Agreement on account of termination of Employee’s employment constitute “deferred compensation” subject to Section 409A of the Code, and that Employee is a “specified employee” as defined in Section 409A(a)(2)(B)(i) of the Code and 26 C.F.R. Section 1.409A-1(i), then such severance payments shall commence on the first payroll date of the seventh month following the month in which Employee’s termination occurs (with the first such payment being a lump sum equal to the aggregate severance payments Employee would have received during the prior six-month period if no such delay had been imposed). For purposes of this Agreement, whether Employee is a “specified employee” will be determined by Centuri.

All reimbursements and in-kind benefits provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A of the Code and the regulations to the extent that such reimbursements or in-kind benefits are not excepted from Section 409A of the Code, including where applicable, the requirement that (i) any reimbursement is for expenses incurred during Employee’s lifetime (or during a shorter period of time specified in the Agreement); (ii) the amount of expenses eligible for reimbursement during the calendar year may not affect the expenses eligible for reimbursement in any other calendar year; (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred; and (iv) the right to reimbursement is not subject to set off or liquidation or exchange for any other benefit.

J. Confidential Severance Agreement and Release. Notwithstanding any provision herein to the contrary, if Employee has not delivered to Employer an executed Confidential Severance Agreement and Release (the “Release”) on or before the fiftieth (50th) day after the Date of Termination, or if Employee revokes such executed Release prior to the sixtieth (60th) day after the Date of Termination, Employee shall forfeit all of the payments and benefits described in Section III.G.2 or Section III.G.4, as applicable; provided, however, that Employee shall not forfeit such amounts if Employer has not delivered to Employee the required form of Release on or before the 25th day following the Date of Termination. A form of Release is attached as Exhibit B hereto. Employee acknowledges that Employer retains the right to modify the required form of the Release as Employer deems necessary in order to effectuate a full and complete release of claims against the Employer Group and its affiliates, officers and directors.

IV. COMPANY-RELATED INVENTIONS AND DEVELOPMENTS

A. Records of Inventions. Employee shall keep complete and current written records of Inventions and Developments made during the course of his employment with Employer and promptly disclose all such Inventions and Developments in writing to Employer so that it may adequately determine its rights in such Inventions and Developments. Employee shall supplement any such disclosure to the extent Employer may request. If Employee has any doubt as to whether or not to disclose any Inventions and Developments, Employee shall disclose the same to Employer.

B. Ownership of Inventions. All Company-Related Inventions and Developments made by Employee during the term of his employment with Employer shall be the sole and exclusive property of the applicable member(s) of the Employer Group. Employee shall assign, and does hereby assign, his entire right, title and interest in such Company-Related Inventions and Developments to the applicable member(s) of the Employer Group. Employer's ownership and the foregoing assignment shall apply, without limitation, to all rights under the patent, copyright, and trade secret laws of any jurisdiction relating to Company-Related Inventions and Developments. If Employee asserts any property right in any Inventions and Developments made by Employee during the term of his employment with Employer, Employee shall promptly notify Employer of the same in writing.

C. Cooperation with Employer. Employee shall assist and fully cooperate with Employer in obtaining and maintaining the fullest measure of legal protection which the Employer Group elects to obtain and maintain for Inventions and Developments in which the Employer Group has a property right. Employee shall execute any lawful document requested by Employer relating to obtaining and maintaining legal protection for any said Inventions and Developments including, but not limited to, executing applications, assignments, oaths, declarations and affidavits. Employee shall make himself available for interviews, depositions and testimony relating to any said Inventions and Developments. These obligations shall survive the termination of Employee's employment with Employer, provided that Employer shall compensate Employee at a reasonable rate after such termination for time actually spent by Employee at Employer's requests on such assistance. In the event Employer is unable for any reason whatsoever to secure Employee's signature to any document reasonably necessary or appropriate for any of the foregoing purposes including, but not limited to, renewals, extensions, continuations, divisions or continuations in part, in a timely manner, Employee irrevocably designates and appoints Employer and its duly authorized officers and agents as his agents and attorneys-in-fact to act for Employee and on his behalf, but only for purposes of executing and filing any such document and doing all other lawfully permitted acts to accomplish the foregoing purposes with the same legal force and effect as if executed by Employee.

D. Pre-employment Inventions. Employee shall completely identify on Exhibit C attached hereto, without disclosing any trade secret or other proprietary and confidential information, all Inventions and Developments made by Employee prior to his employment with Employer or prior to execution of this Agreement in which Employee has an ownership interest and which is not the subject matter of an issued patent or a printed publication at the time Employee executes this Agreement.

E. Disclosure of Inventions after Termination. Employee shall promptly and completely disclose in writing to Employer's law department all Company-Related Inventions and Developments made by Employee during the one (1) year immediately following Employee's termination of employment, whether voluntarily or involuntarily, for the purposes of determining Employer's rights in each such invention. It will be presumed that Company-Related Inventions and Developments conceived by Employee which are reduced to practice within one (1) year after termination of Employee's employment, whether voluntary or involuntary, were conceived during the term of Employee's employment with Employer unless Employee is able to establish a later conception date by clear and convincing evidence.

F. As used in this Agreement, “Proprietary and Confidential Information” means any and all non-public information or data in any form or medium, tangible or intangible, which has commercial value and which the Employer Group possesses or to which the Employer Group has rights. Proprietary and Confidential Information includes, by way of example and without limitation, information concerning the Employer Group’s specific manner of doing business, including, but not limited to, the processes, methods or techniques utilized by the Employer Group, the Employer Group’s customers, marketing strategies and plans, pricing information, sources of supply and material specifications, the Employer Group’s computer programs, system documentation, special hardware, related software development, and the Employer Group’s business models, manuals, formulations, equipment, compositions, configurations, know-how, ideas, improvements and inventions.

Proprietary and Confidential Information also includes information developed by Employee during his course of employment with Employer or otherwise relating to Company-Related Inventions and Developments, as hereinafter defined, as well as other information to which he may be given access to in connection with his employment.

G. As used in this Agreement, “Inventions and Developments” means any and all inventions, developments, creative works and useful ideas of any description whatsoever, whether or not patentable. Inventions and Developments include, by way of example and without limitation, discoveries and improvements that consist of or relate to any form of Proprietary and Confidential Information.

H. As used in this Agreement, “Company-Related Inventions and Developments” means all Inventions and Developments that: (a) relate at the time of conception or development to the actual business of the Employer Group or to its actual research and development or to business or research and development that is the subject of active planning at the time; (b) result from or relate to any work performed for Employer, whether or not during normal business hours; (c) are developed on Employer’s time; or (d) are developed through the use of the Employer Group’s Proprietary and Confidential Information, equipment, software, or other facilities and resources.

I. For purposes of this Agreement, “make” or “made,” when used in relation to Inventions and Developments, includes any one or any combination of: (a) conception; (b) reduction to practice; or (c) development; and is without regard to whether Employee is a sole or joint inventor.

J. Acknowledgement. As of the date of this Agreement, the Employer Group is engaged primarily in the business of specialty contracting and construction for customers in: the energy sector (which includes natural gas, electric power, oil, and solar and other such renewables); pipeline; conduit; telecommunications; municipal water; waste management; transportation; manufacturing; and traffic control. As such, the Employer Group has developed and continues to develop and use certain trade secrets and other Proprietary and Confidential Information, as hereinafter defined. The Employer Group has spent a substantial amount of time, effort and money, and will continue to do so in the future, to develop or acquire such Proprietary and Confidential Information and promote and increase its good will. Employer and Employee acknowledge and agree that Proprietary and Confidential Information is an asset of particular and immeasurable value to the Employer Group.

V. OBLIGATIONS RELATING TO PROPRIETARY AND CONFIDENTIAL INFORMATION

A. Obligations of Employer.

1. Proprietary and Confidential Information. Employer shall provide Employee, during his employment, with valuable Proprietary and Confidential Information for the purpose of assisting Employee in the performance of his job requirements and responsibilities with Employer. In addition, Employer shall provide to Employee, during his employment, with the equipment, materials and facilities necessary to assist Employee in the performance of his job requirements and responsibilities with Employer.

2. Training. Employer shall provide Employee with any and all specialized training necessary to assist Employee in the performance of his job requirements and responsibilities with Employer including, but not limited to, training relating to the Employer Group's cost structures, methods of operation, the Employer Group's products and marketing techniques, the Employer Group's business strategies, plans and models.

B. Obligations of Employee.

1. Nondisclosure of Proprietary and Confidential Information. Both during and after the termination of employment, whether such termination is voluntary or involuntary, Employee shall keep in confidence and trust all Proprietary and Confidential Information. Both during and after the termination of employment, whether such termination is voluntary or involuntary, Employee shall not use or disclose Proprietary or Confidential Information without the written consent of Employer, except as may be necessary in the ordinary course of performing his duties to Employer.

2. Return of Proprietary and Confidential Information. All documents and tangible things (whether written or electronic) embodying or containing Proprietary and Confidential Information are the Employer Group's exclusive property. Employee shall be provided with or given access to such Proprietary and Confidential Information solely for performing his duties of employment with Employer. Employee shall protect the confidentiality of their content and shall return all such Proprietary and Confidential Information, including all copies, facsimiles and specimens of them in any tangible or electronic forms in Employee's possession, custody or control to Employer before leaving the employment of Employer for any reason, whether voluntary or involuntary.

3. Confidential Information from Previous Employment. Employee shall not disclose or use during his employment with Employer any proprietary and confidential information which Employee has acquired as a result of any previous employment or under a contractual obligation of confidentiality before his employment with Employer and, furthermore, Employee shall not bring to the premises of Employer any copies or other tangible embodiments of any such proprietary and confidential information.

4. Conflict of Interest. Employee shall not engage in outside employment or other activities in the course of which Employee would use or might be tempted or induced to use Proprietary and Confidential Information in other than the Employer Group's own interest.

5. Agreement Not to Compete/Solicit

a) Non-Compete. Employee agrees that during the Covenant Period (as defined below), he shall not, without Employer's written consent, directly or indirectly, for himself or on behalf of or in conjunction with any other person, persons, company, partnership, corporation or business venture of any nature:

(i) engage, as an officer, director, shareholder, owner, partner, joint venturer or in a managerial capacity, whether as an employee, independent contractor, consultant, advisor or sales representative, in the Business of Employer Group (as the Business exists at the Date of Termination), within any state or province of the United States, Canada or any other country in which the Employer Group conducts business, including without limitation any territory serviced by the Employer Group (the "Territory");

(ii) call upon any person or entity which is a Customer of the Employer Group within the Territory for the purpose of soliciting or selling products or services in competition with the Employer Group; or

(iii) call upon any prospective acquisition candidate, on Employee's own behalf or on behalf of any competitor, which candidate was, to Employee's actual knowledge after due inquiry, either called upon by the Employer Group or for which the Employer Group made an acquisition analysis for the purpose of acquiring such entity.

For purposes of this provision, "Business" shall mean providing any of the products or services offered by the Employer Group, as of the Date of Termination, and includes without limitation, the (i) installation, replacement, repair, inspection and maintenance of any infrastructure within the energy sector, whether relating to oil, natural gas, electric power, or solar or other such renewables; (ii) installation, replacement, repair, inspection and maintenance of underground or overhead pipeline, cable, wire and conduit; (iii) street and roadway repairs, whether by asphalt or concrete; (iv) installation, replacement, repair, inspection and maintenance of any infrastructure relating to municipal water and waste management; (v) installation, replacement, repair, inspection and maintenance of industrial facilities, including shop fabrication; and (vi) traffic control.

For purposes of this provision, "Customer" shall include any person or entity (i) for which Employer Group provided Business services within the twenty-four (24) months preceding the Date of Termination; (ii) for which Employer Group sought to provide Business services within the twenty-four (24) months preceding the Date of Termination (which includes without limitation responding to a Request For Information or a Request For Quotation); and/or (iii) that has a valid contract for Business services with a member of Employer Group as of the Date of

Termination. Employee hereby acknowledges the reasonableness of the twenty-four month look back for the purposes of determining the Employer Group's Customers, given the seasonal nature of the relevant construction industry and long lead time until contract execution.

b) Non-Solicitation. Employee agrees that during the Covenant Period, he shall not, without Employer's written consent, employ, hire, solicit, induce or identify for employment or attempt to employ, hire, solicit, induce or identify for employment, directly or indirectly, any employee(s) of the Employer Group on the Date of Termination to leave his or her employment and become an employee, consultant or representative of any other entity including, but not limited to, Employee's new employer, if any.

c) Publicly Traded Securities. The provisions of Section VI.B.5 of this Agreement shall not prevent Employee from acquiring or holding publicly traded stock or other public securities of a competing company, so long as Employee's ownership does not exceed two percent (2%) of the outstanding securities of such company.

d) Agreement to Inform Subsequent Employers. For a period of two (2) years after the termination of Employee's employment with Employer, whether voluntary or involuntary, Employee agrees to inform each new employer, prior to accepting employment, of the existence of this Agreement and provide that employer with a copy of this Agreement.

e) Reasonableness of Restrictions. Employee acknowledges that the restrictions set forth in Section V.B.5 of this Agreement are intended to protect the Employer Group's legitimate business interests and its Proprietary and Confidential Information and established relationships and good will. Employee acknowledges that the time, geographic and scope of activity limitations set forth herein are reasonable and necessary to protect the Employer Group's legitimate business interests. However, if in any judicial proceeding, a court shall refuse to enforce this Agreement as written, whether because the time limitation is too long or because the restrictions contained herein are more extensive (whether as to geographic area, scope of activity or otherwise) than is necessary to protect the legitimate business interests of the Employer Group, it is expressly understood and agreed between the parties hereto that this Agreement is deemed modified to the extent necessary to permit this Agreement to be enforced in any such proceedings.

f) Ability to Obtain Other Employment. Employee acknowledges that (1) in the event of the termination of his employment with Employer (whether voluntary or involuntary), Employee's knowledge, experience and capabilities are such that Employee can obtain employment in business activities which are of a different and non-competing nature than those performed in the course of his employment with Employer or in the geographic areas outside of the Territory and (2) the enforcement of a remedy hereunder including, but not limited to, injunctive relief, will not prevent Employee from earning a reasonable livelihood.

g) Injunctive Relief. Employee acknowledges that compliance with Section VI.B of this Agreement is necessary to protect the good will and other legitimate business interests of the Employer Group and that a breach of any or all of these provisions will give rise to irreparable and continuing injury to the Employer Group that is not adequately compensable in monetary damages or at law. Accordingly, Employee agrees that Employer, its successors and assigns, may obtain injunctive relief against the breach or threatened breach of

any or all of these provisions, in addition to any other legal or equitable remedies which may be available to the Employer Group at law or in equity or under this Agreement. Because Employee further acknowledges that it would be difficult to measure any damages caused to the Employer Group that might result from any breach by Employee of any promises set forth in this Agreement, Employee agrees that Employer shall be entitled to an injunction or other appropriate equitable relief to restrain any such breach without showing or proving any actual damage to the Employer Group, as well as to be relieved of any obligation to provide further payment or benefits to Employee or Employee's dependents.

h) Other Remedies. If Employee violates and/or breaches this Agreement, Employer shall be entitled to an accounting and repayment of all lost profits, compensation, commissions, remuneration or benefits that Employee directly or indirectly has realized or may realize as a result of any such violation or breach. Employer shall also be entitled to recover for all lost sales, profits, commissions, good will and customers caused by Employee's improper acts, in addition to and not in limitation of any injunctive relief or other rights or remedies that Employer is or may be entitled to at law or in equity or under this Agreement.

i) Costs. Employee acknowledges that should it become necessary for Employer to file suit to enforce the provisions contained herein, and any court of competent jurisdiction awards the Employer Group any damages and/or an injunction due to the acts of Employee, then Employer shall be entitled to recover its reasonable costs incurred in conducting the suit including, but not limited to, reasonable attorneys' fees and expenses.

j) Covenant Period. For purposes of this Section V.B.5, the Covenant Period shall mean the period from and during the Term of this Agreement and ending on the date that is two (2) years after Employee's employment with Employer terminates, whether voluntary or involuntary. For purposes of clarity, in the event that Employee's employment with Employer terminates for any reason, whether voluntary or involuntary, after Employee receives a Renewal Termination Notice and before the end of the Term, the Covenant Period shall end on the date that is two (2) years after the termination of Employee's employment and not two (2) years from the Renewal Termination Notice date.

6. Nondisparagement. Employee acknowledges and agrees that both during and after his employment with Employer, whether such termination is voluntary or involuntary, Employee shall not disparage, denigrate or comment negatively upon, either orally or in writing, the Employer Group or any of their respective officers, directors, employees or representatives, to or in the presence of any person or entity unless compelled to act by a valid subpoena or other legal mandate; provided, however, if Employee receives such a valid subpoena or legal mandate, he shall provide Employer with written notice of the same at least five (5) business days prior to the date on which Employee is required to make the disclosure.

Employer agrees to use reasonable efforts to cause the directors and executive officers of Centuri and Parent Company not to disparage, denigrate or comment negatively upon Employee, either orally or in writing, to any person or entity that is not an officer, director or employee of Employer Group unless compelled to act by a valid subpoena or other legal

mandate; provided, however, if Employer receives such a valid subpoena or legal mandate, it shall provide Employee with written notice of the same at least five (5) business days prior to the date on which Employer is required to make the disclosure. Employer and the directors and officers of Centuri and Parent Company will not provide any references to future employers or third parties without receiving a written request from Employee with an executed release from any liability for Employer and its directors, officers, and employees.

VI. WAIVER OF RIGHT TO JURY TRIAL

EMPLOYER AND EMPLOYEE HEREBY VOLUNTARILY, KNOWINGLY AND INTENTIONALLY WAIVE ANY AND ALL RIGHTS TO TRIAL BY JURY FOR ALL CLAIMS ARISING OUT OF OR RELATING TO THIS AGREEMENT, AS WELL AS FOR ALL CLAIMS ARISING OUT OF EMPLOYEE'S EMPLOYMENT WITH EMPLOYER OR TERMINATION THEREFROM INCLUDING, BUT NOT LIMITED TO:

A. Any and all claims and causes of action arising under contract, tort or other common law including, without limitation, breach of contract, fraud, estoppel, misrepresentation, express or implied duties of good faith and fair dealing, wrongful discharge, discrimination, retaliation, harassment, negligence, gross negligence, false imprisonment, assault and battery, conspiracy, intentional or negligent infliction of emotional distress, slander, libel, defamation and invasion of privacy;

B. Any and all claims and causes of action arising under any federal, state or local law, regulation or ordinance, including, without limitation, claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the Fair Labor Standards Act and all corresponding state laws; and

C. Any and all claims and causes of action for wages, employee benefits, vacation pay, severance pay, pension or profit sharing benefits, health or welfare benefits, bonus compensation, commissions, deferred compensation or other remuneration, employment benefits or compensation, past or future loss of pay or benefits or expenses.

VII. CLAIMS

Employer and Employee acknowledge and agree that this Agreement shall be interpreted, governed by and construed in accordance with the laws of the State of Nevada, without regard to the conflict of laws principles or rules thereof.

Employer and Employee irrevocably and unconditionally agree that any legal suit, action or proceeding arising out of or relating to this Agreement, as well as to all claims arising out of Employee's employment with Employer or termination therefrom, shall be brought in either the Federal District Court for Nevada or in a judicial district court of Clark County, Nevada (hereinafter referred to as the "Nevada Courts"). In that regard, Employer and Employee waive, to the fullest extent allowed, any objection that Employer or Employee may have to the venue of any such proceeding being brought in the Nevada Courts, and any claim that any such

action or proceeding brought in the Nevada Courts has been brought in an inconvenient forum. In addition, Employer and Employee irrevocably and unconditionally submit to the exclusive jurisdiction of the Nevada Courts in any such suit, action or proceeding. Employer and Employee acknowledge and agree that a judgment in any suit, action or proceeding brought in the Nevada Courts shall be conclusive and binding on each and may be enforced in any other courts to whose jurisdiction Employer or Employee is or may be subject to, by suit upon such judgment.

In the event Employee obtains a final judgment in his favor by a court of competent jurisdiction with respect to any dispute regarding Employer's failure to pay Employee on a timely basis the amounts to which he is entitled under this Agreement or as a result of any other breach of this Agreement by Employer, Employer shall pay all amounts and damages to which Employee may be entitled as a result of such breach, including interest thereon and all reasonable legal fees and expense and other costs incurred by Employee to enforce Employee's rights hereunder.

VIII. MISCELLANEOUS

A. Publicity Release. By executing this Agreement, Employee forever gives the Employer Group, its successors, assigns, licensees and any other designees, the absolute right and permission, throughout the world: (1) to copyright (and to renew and extend any copyright), use, reuse, publish and republish photographic portraits and pictures, motion or still, of Employee, or in which Employee may be included, in whole or in part, or composite or distorted character in any form, whether heretofore taken or to be taken in the future, in conjunction with Employee's own or a fictitious name or title (which Employee now has or may have in the future), or reproductions thereof, in color or otherwise, made through any media at any place, for art, advertising, trade or any other purpose whatsoever; and (2) to record, reproduce, amplify, simulate, "double" and/or "dub" Employee's voice and transmit the same by any mechanical or electronic means, for any purpose whatsoever. Employee further consents to the use of any printed matter giving Employee, or not giving Employee, a credit, in the sole discretion of any of the aforementioned parties to whom this authorization and release is given, in conjunction therewith. Employee waives any right he may have to inspect and/or approve the finished product or the advertising copy or printed matter that may be used in connection therewith, or the use to which it may be applied.

B. Withholding. Employer may withhold from any amounts payable under this Agreement such federal, state, local, F.I.C.A., foreign or other taxes as shall be required to be withheld pursuant to any applicable law or regulation.

C. Notices. All notices, consents, requests, instructions, approvals and other communications provided for in this Agreement shall be in writing and shall be addressed as follows:

To Employer:

Centuri Construction Group, Inc.
c/o Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, NV 88150
Attention: General Counsel

To Employee:

Paul M. Daily

Notice shall be deemed given and effective: (1) upon receipt, if delivered personally; (2) three (3) days after it has been deposited in the U.S. mail, addressed as required above, and sent via registered or certified mail, return receipt requested, postage prepaid; or (3) the next business day after it has been sent via a recognized overnight courier. Employer and/or Employee may change the address for notice purposes by notifying the other of such change in accordance with this Section VIII.C.

D. Severability. If any provision of this Agreement is held to be invalid, inoperative or unenforceable for any reason, it shall be modified rather than voided, if possible, in order to achieve the intent of the parties hereto to the maximum extent possible. In any event, if any provision of this Agreement is held to be invalid, inoperative or unenforceable for any reason, the other provisions of this Agreement shall be deemed valid and operative and, so far as is reasonable and possible, effect shall be given to the intent manifested by the provision or provisions held invalid or inoperative.

E. Survival of Certain Obligations. The obligations of the parties set forth in this Agreement that by their terms extend beyond or survive the termination of this Agreement, whether voluntarily or involuntarily, will not be affected or diminished in any way by the termination of this Agreement.

F. Headings. The headings contained in this Agreement are for purposes of reference and convenience only and are not intended in any way to describe, interpret, define or limit the extent or intent of this Agreement.

G. Entire Agreement. This Agreement supersedes any other agreements, written or oral, between the Employer Group and Employee, and Employee has no oral representations, understandings or agreements with the Employer Group or any of their respective officers, directors or representatives covering the same subject matter as this Agreement. This written Agreement is the final, complete and exclusive statement and expression of the agreement between Employer and Employee and of all the terms of this Agreement. This Agreement cannot be modified, varied, contradicted or supplemented by evidence of any prior or contemporaneous oral or written agreements.

H. Amendment/Waiver. Neither this Agreement nor any term hereof may be modified or amended except by written instrument signed by a duly authorized officer of Employer and by Employee. No term of this Agreement may be waived other than by written instrument signed by the party waiving the benefit of such term. Any such waiver shall constitute a waiver only with respect to the specific matter described in such written instrument and shall in no way impair the rights of the party granting such waiver in any other respect or

at any other time. Neither the waiver by Employer or Employee of a breach of or a default under any of the provisions of this Agreement, nor the failure by either Employer or Employee, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any such provisions, rights or privileges hereunder.

I. Assignment. This Agreement is personal to the parties and neither party may assign any rights or obligations under the same without the prior written consent of the other; provided, however, that in the event of a sale of the Employer Group's business to a third party (whether by sale of all or a majority of the Employer Group's issued and outstanding equity securities, by a merger or reorganization, or by a sale of all or substantially of the Employer Group's assets), then this Agreement may be assigned by Employer to such third party purchaser without the prior written consent of Employee, provided that such third party purchaser agrees to assume and abide by all of Employer's obligations set forth in this Agreement and provides written notice thereof to Employee. In the event of any such assignment, all references to "Centuri" hereunder shall mean the assignee, and to the extent any entity becomes the successor to Centuri, all obligations hereunder shall be the obligations of the successor and "Centuri" mean the successor entity.

J. Counterparts. This Agreement may be executed simultaneously in two (2) or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.

[Signature page follows.]

IN WITNESS, WHEREOF, the parties hereto have executed this Agreement as of the date first written above, but to be effective as of the Effective Date.

CENTURI CONSTRUCTION GROUP, INC.:

By: /s/ John P. Hester
John P. Hester
Chairman

EMPLOYEE:

/s/ Paul M. Daily
Paul M. Daily

**NPL Executive Deferred
Compensation Plan**

IMPORTANT NOTE

This document has not been approved by the Department of Labor, Internal Revenue Service or any other governmental entity. An adopting Employer must determine whether the Plan is subject to the Federal securities laws and the securities laws of the various states. An adopting Employer may not rely on this document to ensure any particular tax consequences or to ensure that the Plan is “unfunded and maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees” under Title I of the Employee Retirement Income Security Act of 1974, as amended, with respect to the Employer’s particular situation. Fidelity Employer Services Company, its affiliates and employees cannot provide you with legal advice in connection with the execution of this document. This document should be reviewed by the Employer’s attorney prior to execution.

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PREAMBLE

The Plan is intended to be a “plan which is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees” within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended, or an “excess benefit plan” within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended, or a combination of both. The Plan is further intended to conform with the requirements of Internal Revenue Code Section 409A and the final regulations issued thereunder and shall be interpreted, implemented and administered in a manner consistent therewith.

ARTICLE 1 – GENERAL

1.1 Plan. The Plan will be referred to by the name specified in the Adoption Agreement.

1.2 Effective Dates.

- (a) Original Effective Date. The Original Effective Date is the date as of which the Plan was initially adopted.
- (b) Amendment Effective Date. The Amendment Effective Date is the date specified in the Adoption Agreement as of which the Plan is amended and restated. Except to the extent otherwise provided herein or in the Adoption Agreement, the Plan shall apply to amounts deferred and benefit payments made on or after the Amendment Effective Date.
- (c) Special Effective Date. A Special Effective Date may apply to any given provision if so specified in Appendix A of the Adoption Agreement. A Special Effective Date will control over the Original Effective Date or Amendment Effective Date, whichever is applicable, with respect to such provision of the Plan.

1.3 Amounts Not Subject to Code Section 409A

Except as otherwise indicated by the Plan Sponsor in Section 1.01 of the Adoption Agreement, amounts deferred before January 1, 2005 that are earned and vested on December 31, 2004 will be separately accounted for and administered in accordance with the terms of the Plan as in effect on December 31, 2004.

ARTICLE 2 – DEFINITIONS

Pronouns used in the Plan are in the masculine gender but include the feminine gender unless the context clearly indicates otherwise. Wherever used herein, the following terms have the meanings set forth below, unless a different meaning is clearly required by the context:

- 2.1 **“Account”** means an account established for the purpose of recording amounts credited on behalf of a Participant and any income, expenses, gains, losses or distributions included thereon. The Account shall be a bookkeeping entry only and shall be utilized solely as a device for the measurement and determination of the amounts to be paid to a Participant or to the Participant’s Beneficiary pursuant to the Plan.
- 2.2 **“Administrator”** means the person or persons designated by the Plan Sponsor in Section 1.05 of the Adoption Agreement to be responsible for the administration of the Plan. If no Administrator is designated in the Adoption Agreement, the Administrator is the Plan Sponsor.
- 2.3 **“Adoption Agreement”** means the agreement adopted by the Plan Sponsor that establishes the Plan.
- 2.4 **“Beneficiary”** means the persons, trusts, estates or other entities entitled under Section 8.2 to receive benefits under the Plan upon the death of a Participant.
- 2.5 **“Board” or “Board of Directors”** means the Board of Directors of the Plan Sponsor.
- 2.6 **“Bonus”** means an amount of incentive cash remuneration payable by the Employer to a Participant.
- 2.7 **“Change in Control”** means the occurrence of an event involving the Plan Sponsor that is described in Section 9.7.
- 2.8 **“Code”** means the Internal Revenue Code of 1986, as amended.
- 2.9 **“Compensation”** has the meaning specified in Section 3.01 of the Adoption Agreement.
- 2.10 **“Director”** means a non-employee member of the Board who has been designated by the Employer as eligible to participate in the Plan.

- 2.11 **“Disabled”** means a determination by the Administrator that the Participant is either (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or last for a continuous period of not less than twelve months, receiving income replacement benefits for a period of not less than three months under an accident and health plan covering employees of the Employer. A Participant will be considered Disabled if he is determined to be totally disabled by the Social Security Administration or the Railroad Retirement Board.
- 2.12 **“Eligible Employee”** means an employee of the Employer who satisfies the requirements in Section 2.01 of the Adoption Agreement.
- 2.13 **“Employer”** means the Plan Sponsor and any other entity which is authorized by the Plan Sponsor to participate in and, in fact, does adopt the Plan.
- 2.14 **“ERISA”** means the Employee Retirement Income Security Act of 1974, as amended.
- 2.15 **“Identification Date”** means the date as of which Key Employees are determined, which is specified in Section 1.06 of the Adoption Agreement.
- 2.16 **“Key Employee”** means an employee who satisfies the conditions set forth in Section 9.6.
- 2.17 **“Participant”** means an Eligible Employee or Director who commences participation in the Plan in accordance with Article 3.
- 2.18 **“Plan”** means the unfunded plan of deferred compensation set forth herein, including the Adoption Agreement and any trust agreement, as adopted by the Plan Sponsor and as amended from time to time.
- 2.19 **“Plan Sponsor”** means the entity identified in Section 1.03 of the Adoption Agreement or any successor by merger, consolidation or otherwise.
- 2.20 **“Plan Year”** means the period identified in Section 1.02 of the Adoption Agreement.
- 2.21 **“Related Employer”** means the Employer and (a) any corporation that is a member of a controlled group of corporations as defined in Code Section 414(b) that includes the Employer and (b) any trade or business that is under common control as defined in Code Section 414(c) that includes the Employer.

2.22 **“Retirement”** has the meaning specified in 6.01(f) of the Adoption Agreement.

2.23 **“Separation from Service”** means the date that the Participant dies, retires or otherwise has a termination of employment with respect to all entities comprising the Related Employer. A Separation from Service does not occur if the Participant is on military leave, sick leave or other bona fide leave of absence if the period of leave does not exceed six months or such longer period during which the Participant’s right to re-employment is provided by statute or contract. If the period of leave exceeds six months and the Participant’s right to re-employment is not provided either by statute or contract, a Separation from Service will be deemed to have occurred on the first day following the six-month period. If the period of leave is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than six months, where the impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29-month period of absence may be substituted for the six-month period.

Whether a termination of employment has occurred is based on whether the facts and circumstances indicate that the Related Employer and the Participant reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Participant would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than 20 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36 month period (or the full period of services to the Related Employer if the employee has been providing services to the Related Employer for less than 36 months). If a Participant continues to provide services to a Related Employer in a capacity other than as an employee, the Participant will not be deemed to have a termination of employment if the Participant is providing services at an annual rate that is at least 50 percent of the services rendered by such individual, on average, during the immediately preceding 36-month period of employment (or such lesser period of employment).

An independent contractor is considered to have experienced a Separation from Service with the Related Employer upon the expiration of the contract (or, in the case of more than one contract, all contracts) under which services are performed for the Related Employer if the expiration constitutes a good-faith and complete termination of the contractual relationship.

If a Participant provides services as both an employee and an independent contractor of the Related Employer, the Participant must separate from service both as an employee and as an independent contractor to be treated as having incurred a Separation from Service. If a Participant ceases providing services as an independent contractor and begins providing services as an employee, or ceases providing services as an employee and begins providing services as an independent contractor, the Participant will not be considered to have experienced a Separation from Service until the Participant has ceased providing services in both capacities.

If a Participant provides services both as an employee and as a member of the board of directors of a corporate Related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as a director are not taken into account in determining whether the Participant has incurred a Separation from Service as an employee for purposes of a nonqualified deferred compensation plan in which the Participant participates as an employee that is not aggregated under Code Section 409A with any plan in which the Participant participates as a director.

If a Participant provides services both as an employee and as a member of the board of directors of a corporate Related Employer (or an analogous position with respect to a noncorporate Related Employer), the services provided as an employee are not taken into account in determining whether the Participant has experienced a Separation from Service as a director for purposes of a nonqualified deferred compensation plan in which the Participant participates as a director that is not aggregated under Code Section 409A with any plan in which the Participant participates as an employee.

All determinations of whether a Separation from Service has occurred will be made in a manner consistent with Code Section 409A and the final regulations thereunder.

2.24 “Unforeseeable Emergency” means a severe financial hardship of the Participant resulting from an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary, or the Participant’s dependent (as defined in Code Section 152, without regard to Code section 152(b)(i), (b)(2) and (d)(i)(B)); loss of the Participant’s property due to casualty; or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

2.25 “Valuation Date” means each business day of the Plan Year that the New York Stock Exchange is open.

2.26 **“Years of Service”** means each one year period for which the Participant receives service credit in accordance with the provisions of Section 7.01(d) of the Adoption Agreement.

ARTICLE 3 – PARTICIPATION

3.1 **Participation.** The Participants in the Plan shall be those Directors and employees of the Employer who satisfy the requirements of Section 2.01 of the Adoption Agreement.

3.2 **Termination of Participation.** The Administrator may terminate a Participant’s participation in the Plan in a manner consistent with Code Section 409A. If the Employer terminates a Participant’s participation before the Participant experiences a Separation from Service, the Participant’s vested Accounts shall be paid in accordance with the provisions of Article 9.

ARTICLE 4 – PARTICIPANT ELECTIONS

4.1 **Deferral Agreement.** If permitted by the Plan Sponsor in accordance with Section 4.01 of the Adoption Agreement, each Eligible Employee and Director may elect to defer his Compensation within the meaning of Section 3.01 of the Adoption Agreement by executing in writing or electronically, a deferral agreement in accordance with rules and procedures established by the Administrator and the provisions of this Article 4.

A new deferral agreement must be timely executed for each Plan Year during which the Eligible Employee or Director desires to defer Compensation. An Eligible Employee or Director who does not timely execute a deferral agreement shall be deemed to have elected zero deferrals of Compensation for such Plan Year.

A deferral agreement may be changed or revoked during the period specified by the Administrator. Except as provided in Section 9.3 or in Section 4.01(c) of the Adoption Agreement, a deferral agreement becomes irrevocable at the close of the specified period.

4.2 **Amount of Deferral.** An Eligible Employee or Director may elect to defer Compensation in any amount permitted by Section 4.01(a) of the Adoption Agreement.

4.3 **Timing of Election to Defer.** Each Eligible Employee or Director who desires to defer Compensation otherwise payable during a Plan Year must execute a deferral agreement within the period preceding the Plan Year specified by the Administrator. Each Eligible Employee who desires to defer Compensation that is a Bonus must execute a deferral agreement within the period preceding the Plan Year during which the Bonus is earned that is specified by the Administrator, except that if the Bonus can be

treated as performance based compensation as described in Code Section 409A(a)(4)(B)(iii), the deferral agreement may be executed within the period specified by the Administrator, which period, in no event, shall end after the date which is six months prior to the end of the period during which the Bonus is earned, provided the Participant has performed services continuously from the later of the beginning of the performance period or the date the performance criteria are established through the date the Participant executed the deferral agreement and provided further that the compensation has not yet become 'readily ascertainable' with the meaning of Reg. Sec 1.409A-2(a)(8). In addition, if the Compensation qualifies as 'fiscal year compensation' within the meaning of Reg. Sec. 1.409A -2(a)(6), the deferral agreement may be made not later than the end of the Employer's taxable year immediately preceding the first taxable year of the Employer in which any services are performed for which such Compensation is payable.

Except as otherwise provided below, an employee who is classified or designated as an Eligible Employee during a Plan Year or a Director who is designated as eligible to participate during a Plan Year may elect to defer Compensation otherwise payable during the remainder of such Plan Year in accordance with the rules of this Section 4.3 by executing a deferral agreement within the thirty (30) day period beginning on the date the employee is classified or designated as an Eligible Employee or the date the Director is designated as eligible, whichever is applicable, if permitted by Section 4.01(b)(ii) of the Adoption Agreement. If Compensation is based on a specified performance period that begins before the Eligible Employee or Director executes his deferral agreement, the election will be deemed to apply to the portion of such Compensation equal to the total amount of Compensation for the performance period multiplied by the ratio of the number of days remaining in the performance period after the election becomes irrevocable and effective over the total number of days in the performance period. The rules of this paragraph shall not apply unless the Eligible Employee or Director can be treated as initially eligible in accordance with Reg. Sec. 1.409A-2(a)(7).

4.4 Election of Payment Schedule and Form of Payment.

All elections of a payment schedule and a form of payment will be made in accordance with rules and procedures established by the Administrator and the provisions of this Section 4.4.

(a) If the Plan Sponsor has elected to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director completes a deferral agreement, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for the Compensation subject to the deferral agreement from among the options the Plan Sponsor has made available for this purpose and which are specified in 6.01(b) of the Adoption Agreement. Prior to the

time required by Reg. Sec. 1.409A-2, the Eligible Employee or Director shall elect a distribution event (which includes a specified time) and a form of payment for any Employer contributions that may be credited to the Participant's Account during the Plan Year. If an Eligible Employee or Director fails to elect a distribution event, he shall be deemed to have elected Separation from Service as the distribution event. If he fails to elect a form of payment, he shall be deemed to have elected a lump sum form of payment.

(b) If the Plan Sponsor has elected not to permit annual distribution elections in accordance with Section 6.01(h) of the Adoption Agreement the following rules apply. At the time an Eligible Employee or Director first completes a deferral agreement but in no event later than the time required by Reg. Sec. 1.409A-2, the Eligible Employee or Director must elect a distribution event (which includes a specified time) and a form of payment for amounts credited to his Account from among the options the Plan Sponsor has made available for this purpose and which are specified in Section 6.01(b) of the Adoption Agreement. If an Eligible Employee or Director fails to elect a distribution event, he shall be deemed to have elected Separation from Service in the distribution event. If he fails to elect a form of payment, he shall be deemed to have elected a lump sum form of payment.

ARTICLE 5 – EMPLOYER CONTRIBUTIONS

- 5.1 Matching Contributions.** If elected by the Plan Sponsor in Section 5.01(a) of the Adoption Agreement, the Employer will credit the Participant's Account with a matching contribution determined in accordance with the formula specified in Section 5.01(a) of the Adoption Agreement. The matching contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(a)(iii) of the Adoption Agreement.
- 5.2 Other Contributions.** If elected by the Plan Sponsor in Section 5.01(b) of the Adoption Agreement, the Employer will credit the Participant's Account with a contribution determined in accordance with the formula or method specified in Section 5.01(b) of the Adoption Agreement. The contribution will be treated as allocated to the Participant's Account at the time specified in Section 5.01(b)(iii) of the Adoption Agreement.

ARTICLE 6 – ACCOUNTS AND CREDITS

- 6.1 Establishment of Account.** For accounting and computational purposes only, the Administrator will establish and maintain an Account on behalf of each Participant which will reflect the credits made pursuant to Section 6.2, distributions or withdrawals, along with the earnings, expenses, gains and losses allocated thereto, attributable to the hypothetical investments made with the amounts in the Account as provided in Article 7. The Administrator will establish and maintain such other records and accounts, as it decides in its discretion to be reasonably required or appropriate to discharge its duties under the Plan.
- 6.2 Credits to Account.** A Participant's Account will be credited for each Plan Year with the amount of his elective deferrals under Section 4.1 at the time the amount subject to the deferral election would otherwise have been payable to the Participant and the amount of Employer contributions (if any) treated as allocated on his behalf under Article 5.

ARTICLE 7 – INVESTMENT OF CONTRIBUTIONS

- 7.1 Investment Options.** The amount credited to each Account shall be treated as invested in the investment options designated for this purpose by the Administrator.
- 7.2 Adjustment of Accounts.** The amount credited to each Account shall be adjusted for hypothetical investment earnings, expenses, gains or losses in an amount equal to the earnings, expenses, gains or losses attributable to the investment options selected by the party designated in Section 9.01 of the Adoption Agreement from among the investment options provided in Section 7.1. If permitted by Section 9.01 of the Adoption Agreement, a Participant (or the Participant's Beneficiary after the death of the Participant) may, in accordance with rules and procedures established by the Administrator, select the investments from among the options provided in Section 7.1 to be used for the purpose of calculating future hypothetical investment adjustments to the Account or to future credits to the Account under Section 6.2 effective as of the Valuation Date coincident with or next following notice to the Administrator. Each Account shall be adjusted as of each Valuation Date to reflect: (a) the hypothetical earnings, expenses, gains and losses described above; (b) amounts credited pursuant to Section 6.2; and (c) distributions or withdrawals. In addition, each Account may be adjusted for its allocable share of the hypothetical costs and expenses associated with the maintenance of the hypothetical investments provided in Section 7.1.

ARTICLE 8 – RIGHT TO BENEFITS

8.1 Vesting. A Participant, at all times, has a 100% nonforfeitable interest in the amounts credited to his Account attributable to his elective deferrals made in accordance with Section 4.1.

A Participant's right to the amounts credited to his Account attributable to Employer contributions made in accordance with Article 5 shall be determined in accordance with the relevant schedule and provisions in Section 7.01 of the Adoption Agreement. Upon a Separation from Service and after application of the provisions of Section 7.01 of the Adoption Agreement, the Participant shall forfeit the nonvested portion of his Account.

8.2 Death. The Plan Sponsor may elect to accelerate vesting upon the death of the Participant in accordance with Section 7.01(c) of the Adoption Agreement and/or to accelerate distributions upon Death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement. If the Plan Sponsor does not elect to accelerate distributions upon death in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the vested amount credited to the Participant's Account will be paid in accordance with the provisions of Article 9.

A Participant may designate a Beneficiary or Beneficiaries, or change any prior designation of Beneficiary or Beneficiaries in accordance with rules and procedures established by the Administrator.

A copy of the death notice or other sufficient documentation must be filed with and approved by the Administrator. If upon the death of the Participant there is, in the opinion of the Administrator, no designated Beneficiary for part or all of the Participant's vested Account, such amount will be paid first to any surviving spouse to whom the Participant was legally married to at the time of his death, or if there is no surviving spouse, to his estate (such estate shall be deemed to be the Beneficiary for purposes of the Plan) in accordance with the provisions of Article 9.

8.3 Disability. If the Plan Sponsor has elected to accelerate vesting upon the occurrence of a Disability in accordance with Section 7.01(c) of the Adoption Agreement and/or to permit distributions upon Disability in accordance with Section 6.01(b) or Section 6.01(d) of the Adoption Agreement, the determination of whether a Participant has incurred a Disability shall be made by the Administrator in its sole discretion in a manner consistent with the requirements of Code Section 409A.

ARTICLE 9 – DISTRIBUTION OF BENEFITS

- 9.1 Amount of Benefits.** The vested amount credited to a Participant's Account as determined under Articles 6, 7 and 8 shall determine and constitute the basis for the value of benefits payable to the Participant under the Plan.
- 9.2 Method and Timing of Distributions.** Except as otherwise provided in this Article 9, distributions under the Plan shall be made in accordance with the elections made or deemed made by the Participant under Article 4. Subject to the provisions of Section 9.6 requiring a six-month delay for certain distributions to Key Employees, distributions following a payment event shall commence at the time specified in Section 6.01(a) of the Adoption Agreement. If permitted by Section 6.01(g) of the Adoption Agreement, a Participant may elect, at least twelve months before a scheduled distribution event, to delay the payment date for a minimum period of sixty months from the originally scheduled date of payment. The distribution election change must be made in accordance with procedures and rules established by the Administrator. The Participant may, at the same time the date of payment is deferred, change the form of payment but such change in the form of payment may not effect an acceleration of payment in violation of Code Section 409A or the provisions of Reg. Sec. 1.409A-2(b). For purposes of this Section 9.2, a series of installment payments is always treated as a single payment and not as a series of separate payments.
- 9.3 Unforeseeable Emergency.** A Participant may request a distribution due to an Unforeseeable Emergency if the Plan Sponsor has elected to permit Unforeseeable Emergency withdrawals under Section 8.01(a) of the Adoption Agreement, provided such withdrawal does not violate Code Section 409A or the provisions of Reg. Sec. 1.409A-2(b), if applicable. The request must be in writing and must be submitted to the Administrator along with evidence that the circumstances constitute an Unforeseeable Emergency. The Administrator has the discretion to require whatever evidence it deems necessary to determine whether a distribution is warranted, and may require the Participant to certify that the need cannot be met from other sources reasonably available to the Participant. Whether a Participant has incurred an Unforeseeable Emergency will be determined by the Administrator on the basis of the relevant facts and circumstances in its sole discretion, but, in no event, will an Unforeseeable Emergency be deemed to exist if the hardship can be relieved: (a) through reimbursement or compensation by insurance or otherwise, (b) by

liquidation of the Participant's assets to the extent such liquidation would not itself cause severe financial hardship, or (c) by cessation of deferrals under the Plan. A distribution due to an Unforeseeable Emergency must be limited to the amount reasonably necessary to satisfy the emergency need and may include any amounts necessary to pay any federal, state, foreign or local income taxes and penalties reasonably anticipated to result from the distribution. The distribution will be made in the form of a single lump sum cash payment. If permitted by Section 8.01(b) of the Adoption Agreement, a Participant's deferral elections for the remainder of the Plan Year will be cancelled upon a withdrawal due to an Unforeseeable Emergency. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with Section 9.6 at the time he experiences an Unforeseeable Emergency, the amount being delayed shall not be subject to the provisions of this Section 9.3 until the expiration of the six-month period of delay required by section 9.6.

- 9.4 Payment Election Overrides.** If the Plan Sponsor has elected one or more payment election overrides in accordance with Section 6.01(d) of the Adoption Agreement, the following provisions apply. Upon the occurrence of the first event selected by the Plan Sponsor, the remaining vested amount credited to the Participant's Account shall be paid in the form designated to the Participant or his Beneficiary regardless of whether the Participant had made different elections of time and /or form of payment or whether the Participant was receiving installment payments at the time of the event.
- 9.5 Cashouts Of Amounts Not Exceeding Stated Limit.** If the vested amount credited to the Participant's Account does not exceed the limit established for this purpose by the Plan Sponsor in Section 6.01(e) of the Adoption Agreement at the time he separates from service with the Related Employer for any reason, the Employer shall distribute such amount to the Participant at the time specified in Section 6.01(a) of the Adoption Agreement in a single lump sum cash payment following such termination regardless of whether the Participant had made different elections of time or form of payment as to the vested amount credited to his Account or whether the Participant was receiving installments at the time of such termination. A Participant's Account, for purposes of this Section 9.5, shall include any amounts described in Section 1.3.
- 9.6 Required Delay in Payment to Key Employees.** Except as otherwise provided in this Section 9.6, a distribution made on account of Separation from Service (or Retirement, if applicable) to a Participant who is a Key Employee as of the date of his Separation from Service (or Retirement, if applicable) shall not be made before the date which is six months after the Separation from Service (or Retirement, if applicable).

(a) A Participant is treated as a Key Employee if (i) he is employed by a Related Employer any of whose stock is publicly traded on an established securities market, and (ii) he satisfies the requirements of Code Section 416(i)(1)(A)(i), (ii) or (iii), determined without regard to Code Section 416(i)(5), at any time during the twelve-month period ending on the Identification Date.

(b) A Participant who is a Key Employee on an Identification Date shall be treated as a Key Employee for purposes of the six-month delay in distributions for the twelve-month period beginning on the first day of a month no later than the fourth month following the Identification Date. The Identification Date and the effective date of the delay in distributions shall be determined in accordance with Section 1.06 of the Adoption Agreement.

(c) The Plan Sponsor may elect to apply an alternative method to identify Participants who will be treated as Key Employees for purposes of the six-month delay in distributions if the method satisfies each of the following requirements. The alternative method is reasonably designed to include all Key Employees, is an objectively determinable standard providing no direct or indirect election to any Participant regarding its application, and results in either all Key Employees or no more than 200 Key Employees being identified in the class as of any date. Use of an alternative method that satisfies the requirements of this Section 9.6(c) will not be treated as a change in the time and form of payment for purposes of Reg. Sec. 1.409A-2(b).

(d) The six-month delay does not apply to payments described in Section 9.9(a), (b) or (d) or to payments that occur after the death of the Participant. If the payment of all or any portion of the Participant's vested Account is being delayed in accordance with this Section 9.6 at the time he incurs a Disability which would otherwise require a distribution under the terms of the Plan, no amount shall be paid until the expiration of the six-month period of delay required by this Section 9.6.

9.7 Change in Control. If the Plan Sponsor has elected to permit distributions upon a Change in Control, the following provisions shall apply. A distribution made upon a Change in Control will be made at the time specified in Section 6.01(a) of the Adoption Agreement in the form elected by the Participant in accordance with the procedures described in Article 4. Alternatively, if the Plan Sponsor has elected in accordance with Section 11.02 of the Adoption Agreement to require distributions upon a Change in Control, the Participant's remaining vested Account shall be paid to the Participant or the Participant's Beneficiary at the time specified in Section 6.01(a) of the Adoption Agreement as a single lump sum

payment. A Change in Control, for purposes of the Plan, will occur upon a change in the ownership of the Plan Sponsor, a change in the effective control of the Plan Sponsor or a change in the ownership of a substantial portion of the assets of the Plan Sponsor, but only if elected by the Plan Sponsor in Section 11.03 of the Adoption Agreement. The Plan Sponsor, for this purpose, includes any corporation identified in this Section 9.7. All distributions made in accordance with this Section 9.7 are subject to the provisions of Section 9.6.

If a Participant continues to make deferrals in accordance with Article 4 after he has received a distribution due to a Change in Control, the residual amount payable to the Participant shall be paid at the time and in the form specified in the elections he makes in accordance with Article 4 or upon his death or Disability as provided in Article 8.

Whether a Change in Control has occurred will be determined by the Administrator in accordance with the rules and definitions set forth in this Section 9.7. A distribution to the Participant will be treated as occurring upon a Change in Control if the Plan Sponsor terminates the Plan in accordance with Section 10.2 and distributes the Participant's benefits within twelve months of a Change in Control as provided in Section 10.3.

- (a) **Relevant Corporations.** To constitute a Change in Control for purposes of the Plan, the event must relate to (i) the corporation for whom the Participant is performing services at the time of the Change in Control, (ii) the corporation that is liable for the payment of the Participant's benefits under the Plan (or all corporations liable if more than one corporation is liable) but only if either the deferred compensation is attributable to the performance of services by the Participant for such corporation (or corporations) or there is a bona fide business purpose for such corporation (or corporations) to be liable for such payment and, in either case, no significant purpose of making such corporation (or corporations) liable for such payment is the avoidance of federal income tax, or (iii) a corporation that is a majority shareholder of a corporation identified in (i) or (ii), or any corporation in a chain of corporations in which each corporation is a majority shareholder of another corporation in the chain, ending in a corporation identified in (i) or (ii). A majority shareholder is defined as a shareholder owning more than fifty percent (50%) of the total fair market value and voting power of such corporation.
- (b) **Stock Ownership.** Code Section 318(a) applies for purposes of determining stock ownership. Stock underlying a vested option is considered owned by the individual who owns the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). If, however, a vested option is exercisable for stock that is not substantially vested (as defined by Treasury Regulation Section 1.83-3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option.

- (c) **Change in the Ownership of a Corporation.** A change in the ownership of a corporation occurs on the date that any one person or more than one person acting as a group, acquires ownership of stock of the corporation that, together with stock held by such person or group, constitutes more than fifty percent (50%) of the total fair market value or total voting power of the stock of such corporation. If any one person or more than one person acting as a group is considered to own more than fifty percent (50%) of the total fair market value or total voting power of the stock of a corporation, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the corporation (or to cause a change in the effective control of the corporation as discussed below in Section 9.7(d)). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the corporation acquires its stock in exchange for property will be treated as an acquisition of stock. Section 9.7(c) applies only when there is a transfer of stock of a corporation (or issuance of stock of a corporation) and stock in such corporation remains outstanding after the transaction. For purposes of this Section 9.7(c), persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time or as a result of a public offering. Persons will, however, be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the corporation. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders only with respect to ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.
- (d) **Change in the effective control of a corporation.** A change in the effective control of a corporation occurs on the date that either (i) any one person, or more than one person acting as a group, acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the corporation possessing thirty percent (30%) or more of the total voting power of the stock of such corporation, or (ii) a majority of members of the corporation's board of directors is

replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the members of the corporation's board of directors prior to the date of the appointment or election, provided that for purposes of this paragraph (ii), the term corporation refers solely to the relevant corporation identified in Section 9.7(a) for which no other corporation is a majority shareholder for purposes of Section 9.7(a). In the absence of an event described in Section 9.7(d)(i) or (ii), a change in the effective control of a corporation will not have occurred. A change in effective control may also occur in any transaction in which either of the two corporations involved in the transaction has a change in the ownership of such corporation as described in Section 9.7(c) or a change in the ownership of a substantial portion of the assets of such corporation as described in Section 9.7(e). If any one person, or more than one person acting as a group, is considered to effectively control a corporation within the meaning of this Section 9.7(d), the acquisition of additional control of the corporation by the same person or persons is not considered to cause a change in the effective control of the corporation or to cause a change in the ownership of the corporation within the meaning of Section 9.7(c). For purposes of this Section 9.7(d), persons will or will not be considered to be acting as a group in accordance with rules similar to those set forth in Section 9.7(c) with the following exception. If a person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only with respect to the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

- (e) **Change in the ownership of a substantial portion of a corporation's assets.** A change in the ownership of a substantial portion of a corporation's assets occurs on the date that any one person, or more than one person acting as a group (as determined in accordance with rules similar to those set forth in Section 9.7(d)), acquires (or has acquired during the twelve month period ending on the date of the most recent acquisition by such person or persons) assets from the corporation that have a total gross fair market value equal to or more than forty percent (40%) of the total gross fair market value of all of the assets of the corporation immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the corporation or the value of the assets being disposed of determined without regard to any liabilities associated with such assets. There is no Change in Control event under this Section 9.7(e) when there is a transfer to an entity that is controlled by the shareholders of the transferring

corporation immediately after the transfer. A transfer of assets by a corporation is not treated as a change in ownership of such assets if the assets are transferred to (i) a shareholder of the corporation (immediately before the asset transfer) in exchange for or with respect to its stock, (ii) an entity, fifty percent (50%) or more of the total value or voting power of which is owned, directly or indirectly, by the corporation, (iii) a person, or more than one person acting as a group, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the corporation, or (iv) an entity, at least fifty (50%) of the total value or voting power of which is owned, directly or indirectly, by a person described in Section 9.7(e)(iii). For purposes of the foregoing, and except as otherwise provided, a person's status is determined immediately after the transfer of assets.

9.8 Permissible Delays in Payment. Distributions may be delayed beyond the date payment would otherwise occur in accordance with the provisions of Articles 8 and 9 in any of the following circumstances as long as the Employer treats all payments to similarly situated Participants on a reasonably consistent basis.

- (a) The Employer may delay payment if it reasonably anticipates that its deduction with respect to such payment would be limited or eliminated by the application of Code Section 162(m). Payment must be made during the Participant's first taxable year in which the Employer reasonably anticipates, or should reasonably anticipate, that if the payment is made during such year the deduction of such payment will not be barred by the application of Code Section 162(m) or during the period beginning with the Participant's Separation from Service and ending on the later of the last day of the Employer's taxable year in which the Participant separates from service or the 15th day of the third month following the Participant's Separation from Service. If a scheduled payment to a Participant is delayed in accordance with this Section 9.8(a), all scheduled payments to the Participant that could be delayed in accordance with this Section 9.8(a) will also be delayed. In the case of a Participant who is a Key Employee, the date that is six months after the Participant's Separation from Service in the second sentence of this Section 9.8(a).
- (b) The Employer may also delay payment if it reasonably anticipates that the making of the payment will violate federal securities laws or other applicable laws provided payment is made at the earliest date on which the Employer reasonably anticipates that the making of the payment will not cause such violation.

- (c) The Employer reserves the right to amend the Plan to provide for a delay in payment upon such other events and conditions as the Secretary of the Treasury may prescribe in generally applicable guidance published in the Internal Revenue Bulletin.

9.9 Permitted Acceleration of Payment. The Employer may permit acceleration of the time or schedule of any payment or amount scheduled to be paid pursuant to a payment under the Plan provided such acceleration would be permitted by the provisions of Reg. Sec. 1.409A- 3(j)(4), including the following events:

- (a) **Domestic Relations Order.** A payment may be accelerated if such payment is made to an alternate payee pursuant to and following the receipt and qualification of a domestic relations order as defined in Code Section 414(p).
- (b) **Compliance with Ethics Agreements and Legal Requirements.** A payment may be accelerated as may be necessary to comply with ethics agreements with the Federal government or as may be reasonably necessary to avoid the violation of Federal, state, local or foreign ethics law or conflicts of laws, in accordance with the requirements of Code Section 409A.
- (c) **De Minimis Amounts.** A payment will be accelerated if (i) the amount of the payment is not greater than the applicable dollar amount under Code Section 402(g)(1)(B), (ii) at the time the payment is made the amount constitutes the Participant's entire interest under the Plan and all other plans that are aggregated with the Plan under Reg. Sec. 1.409A-1(c)(2).
- (d) **FICA Tax.** A payment may be accelerated to the extent required to pay the Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2) of the Code with respect to compensation deferred under the Plan (the "FICA Amount"). Additionally, a payment may be accelerated to pay the income tax on wages imposed under Code Section 3401 of the Code on the FICA Amount and to pay the additional income tax at source on wages attributable to the pyramiding Code Section 3401 wages and taxes. The total payment under this subsection (d) may not exceed the aggregate of the FICA Amount and the income tax withholding related to the FICA Amount.
- (e) **Section 409A Additional Tax.** A payment may be accelerated if the Plan fails to meet the requirements of Code Section 409A; provided that such payment may not exceed the amount required to be included in income as a result of the failure to comply with the requirements of Code Section 409A.

- (f) **Offset.** A payment may be accelerated in the Employer's discretion as satisfaction of a debt of the Participant to the Employer, where such debt is incurred in the ordinary course of the service relationship between the Participant and the Employer, the entire amount of the reduction in any of the Employer's taxable years does not exceed \$5,000, and the reduction is made at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant.
- (g) **Other Events.** A payment may be accelerated in the Administrator's discretion in connection with such other events and conditions as permitted by Code Section 409A.

ARTICLE 10 – AMENDMENT AND TERMINATION

- 10.1 Amendment by Plan Sponsor.** The Plan Sponsor reserves the right to amend the Plan (for itself and each Employer) through action of its Board of Directors. No amendment can directly or indirectly deprive any current or former Participant or Beneficiary of all or any portion of his Account which had accrued and vested prior to the amendment.
- 10.2 Plan Termination Following Change in Control or Corporate Dissolution.** If so elected by the Plan Sponsor in 11.01 of the Adoption Agreement, the Plan Sponsor reserves the right to terminate the Plan and distribute all amounts credited to all Participant Accounts within the 30 days preceding or the twelve months following a Change in Control as determined in accordance with the rules set forth in Section 9.7. For this purpose, the Plan will be treated as terminated only if all agreements, methods, programs and other arrangements sponsored by the Related Employer immediately after the Change in Control which are treated as a single plan under Reg. Sec. 1.409A-1(c)(2) are also terminated so that all participants under the Plan and all similar arrangements are required to receive all amounts deferred under the terminated arrangements within twelve months of the date the Plan Sponsor irrevocably takes all necessary action to terminate the arrangements. In addition, the Plan Sponsor reserves the right to terminate the Plan within twelve months of a corporate dissolution taxed under Code Section 331 or with the approval of a bankruptcy court pursuant to 11 U. S. C. Section 503(b)(1)(A), provided that amounts deferred under the Plan are included in the gross incomes of Participants in the latest of (a) the calendar year in which the termination and liquidation occurs, (b) the first calendar year in which the amount is no longer subject to a substantial risk of forfeiture, or (c) the first calendar year in which payment is administratively practicable.

10.3 Other Plan Terminations. The Plan Sponsor retains the discretion to terminate the Plan if (a) all arrangements sponsored by the Plan Sponsor that would be aggregated with any terminated arrangement under Code Section 409A and Reg. Sec. 1.409A-1(c)(2) are terminated, (b) no payments other than payments that would be payable under the terms of the arrangements if the termination had not occurred are made within twelve months of the termination of the arrangements, (c) all payments are made within twenty-four months of the date the Plan Sponsor takes all necessary action to irrevocably terminate and liquidate the arrangements, (d) the Plan Sponsor does not adopt a new arrangement that would be aggregated with any terminated arrangement under Code Section 409A and the regulations thereunder at any time within the three-year period following the date of termination of the arrangement, and (e) the termination does not occur proximate to a downturn in the financial health of the Plan sponsor. The Plan Sponsor also reserves the right to amend the Plan to provide that termination of the Plan will occur under such conditions and events as may be prescribed by the Secretary of the Treasury in generally applicable guidance published in the Internal Revenue Bulletin.

ARTICLE 11 – THE TRUST

11.1 Establishment of Trust. The Plan Sponsor may but is not required to establish a trust to hold amounts which the Plan Sponsor may contribute from time to time to correspond to some or all amounts credited to Participants under Section 6.2. If the Plan Sponsor elects to establish a trust in accordance with Section 10.01 of the Adoption Agreement, the provisions of Sections 11.2 and 11.3 shall become operative.

11.2 Grantor Trust. Any trust established by the Plan Sponsor shall be between the Plan Sponsor and a trustee pursuant to a separate written agreement under which assets are held, administered and managed, subject to the claims of the Plan Sponsor's creditors in the event of the Plan Sponsor's insolvency. The trust is intended to be treated as a grantor trust under the Code, and the establishment of the trust shall not cause the Participant to realize current income on amounts contributed thereto. The Plan Sponsor must notify the trustee in the event of a bankruptcy or insolvency.

11.3 Investment of Trust Funds. Any amounts contributed to the trust by the Plan Sponsor shall be invested by the trustee in accordance with the provisions of the trust and the instructions of the Administrator. Trust investments need not reflect the hypothetical investments selected by Participants under Section 7.1 for the purpose of adjusting Accounts and the earnings or investment results of the trust need not affect the hypothetical investment adjustments to Participant Accounts under the Plan.

ARTICLE 12 – PLAN ADMINISTRATION

12.1 Powers and Responsibilities of the Administrator. The Administrator has the full discretionary power to administer the Plan in all of its details, subject, however, to the applicable requirements of ERISA. The Administrator’s powers include, but are not limited to, the following:

- (a) To make and enforce such rules and procedures as it deems necessary or proper for the efficient administration of the Plan;
- (b) To interpret the Plan, its interpretation thereof to be final, except as provided in Section 12.2, on all persons claiming benefits under the Plan;
- (c) To decide all questions concerning the Plan and the eligibility of any person to participate in the Plan;
- (d) To administer the claims and review procedures specified in Section 12.2;
- (e) To compute the amount of benefits which will be payable to any Participant, former Participant or Beneficiary in accordance with the provisions of the Plan;
- (f) To determine the person or persons to whom such benefits will be paid;
- (g) To authorize the payment of benefits;
- (h) To comply with the reporting and disclosure requirements of Part 1 of Subtitle B of Title I of ERISA;
- (i) To appoint such agents, counsel, accountants, and consultants as may be required to assist in administering the Plan;
- (j) By written instrument, to allocate and delegate its responsibilities, including the formation of an Administrative Committee to administer the Plan.

12.2 Claims and Review Procedures.

(a) Claims Procedure.

If any person believes he is being denied any rights or benefits under the Plan, such person may file a claim in writing with the Administrator. If any such claim is wholly or partially denied, the Administrator will notify such person of its decision in writing. Such notification will contain (i) specific reasons for the denial, (ii) specific reference to pertinent Plan provisions, (iii) a description of any additional material or information necessary for such person to perfect such claim and an explanation of why such material or information is necessary, and (iv) a description of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the person's right to bring a civil action following an adverse decision on review. Such notification will be given within 90 days (45 days in the case of a claim regarding Disability) after the claim is received by the Administrator. The Administrator may extend the period for providing the notification by 90 days (30 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the claim and if written notice of such extension and circumstance is given to such person within the initial 90-day period (45-day period in the case of a claim regarding Disability). If such notification is not given within such period, the claim will be considered denied as of the last day of such period and such person may request a review of his claim.

(b) Review Procedure.

Within 60 days (180 days in the case of a claim regarding Disability) after the date on which a person receives a written notification of denial of claim (or, if written notification is not provided, within 60 days (180 days in the case of a claim regarding Disability) of the date denial is considered to have occurred), such person (or his duly authorized representative) may (i) file a written request with the Administrator for a review of his denied claim and of pertinent documents and (ii) submit written issues and comments to the Administrator. The Administrator will notify such person of its decision in writing. Such notification will be written in a manner calculated to be understood by such person and will contain specific reasons for the decision as well as specific references to pertinent Plan provisions. The notification will explain that the person is entitled to receive, upon request and free of charge,

reasonable access to and copies of all pertinent documents and has the right to bring a civil action following an adverse decision on review. The decision on review will be made within 60 days (45 days in the case of a claim regarding Disability). The Administrator may extend the period for making the decision on review by 60 days (45 days in the case of a claim regarding Disability) if special circumstances require an extension of time for processing the request such as an election by the Administrator to hold a hearing, and if written notice of such extension and circumstances is given to such person within the initial 60-day period (45 days in the case of a claim regarding Disability). If the decision on review is not made within such period, the claim will be considered denied.

12.3 Plan Administrative Costs. All reasonable costs and expenses (including legal, accounting, and employee communication fees) incurred by the Administrator in administering the Plan shall be paid by the Plan to the extent not paid by the Employer.

ARTICLE 13 – MISCELLANEOUS

13.1 Unsecured General Creditor of the Employer. Participants and their Beneficiaries, heirs, successors and assigns shall have no secured or special legal or equitable rights, interests or claims in any property or assets of the Employer. For purposes of the payment of benefits under the Plan, any and all of the Employer's assets shall be, and shall remain, the general, unpledged, unrestricted assets of the Employer. Each Employer's obligation under the Plan shall be merely that of an unfunded and unsecured promise to pay money in the future.

13.2 Employer's Liability. Each Employer's liability for the payment of benefits under the Plan shall be defined only by the Plan and by the deferral agreements entered into between a Participant and the Employer. An Employer shall have no obligation or liability to a Participant under the Plan except as provided by the Plan and a deferral agreement or agreements. An Employer shall have no liability to Participants employed by other Employers.

13.3 Limitation of Rights. Neither the establishment of the Plan, nor any amendment thereof, nor the creation of any fund or account, nor the payment of any benefits, will be construed as giving to the Participant or any other person any legal or equitable right against the Employer, the Plan or the Administrator, except as provided herein; and in no event will the terms of employment or service of the Participant be modified or in any way affected hereby.

13.4 Anti-Assignment. Except as may be necessary to fulfill a domestic relations order within the meaning of Code Section 414(p), none of the benefits or rights of a Participant or any Beneficiary of a Participant shall be subject to

the claim of any creditor. In particular, to the fullest extent permitted by law, all such benefits and rights shall be free from attachment, garnishment, or any other legal or equitable process available to any creditor of the Participant and his or her Beneficiary. Neither the Participant nor his or her Beneficiary shall have the right to alienate, anticipate, commute, pledge, encumber, or assign any of the payments which he or she may expect to receive, contingently or otherwise, under the Plan, except the right to designate a Beneficiary to receive death benefits provided hereunder. Notwithstanding the preceding, the benefit payable from a Participant's Account may be reduced, at the discretion of the administrator, to satisfy any debt or liability to the Employer.

- 13.5 Facility of Payment.** If the Administrator determines, on the basis of medical reports or other evidence satisfactory to the Administrator, that the recipient of any benefit payments under the Plan is incapable of handling his affairs by reason of minority, illness, infirmity or other incapacity, the Administrator may direct the Employer to disburse such payments to a person or institution designated by a court which has jurisdiction over such recipient or a person or institution otherwise having the legal authority under State law for the care and control of such recipient. The receipt by such person or institution of any such payments therefore, and any such payment to the extent thereof, shall discharge the liability of the Employer, the Plan and the Administrator for the payment of benefits hereunder to such recipient.
- 13.6 Notices.** Any notice or other communication to the Employer or Administrator in connection with the Plan shall be deemed delivered in writing if addressed to the Plan Sponsor at the address specified in Section 1.03 of the Adoption Agreement and if either actually delivered at said address or, in the case of a letter, 5 business days shall have elapsed after the same shall have been deposited in the United States mails, first-class postage prepaid and registered or certified.
- 13.7 Tax Withholding.** If the Employer concludes that tax is owing with respect to any deferral or payment hereunder, the Employer shall withhold such amounts from any payments due the Participant or from amounts deferred, as permitted by law, or otherwise make appropriate arrangements with the Participant or his Beneficiary for satisfaction of such obligation. Tax, for purposes of this Section 13.7 means any federal, state, local or any other governmental income tax, employment or payroll tax, excise tax, or any other tax or assessment owing with respect to amounts deferred, any earnings thereon, and any payments made to Participants under the Plan.
- 13.8 Indemnification.** (a) Each Indemnitee (as defined in Section 13.8(e)) shall be indemnified and held harmless by the Employer for all actions taken by him and for all failures to take action (regardless of the date of any such action or failure to take action), to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated, against all expense, liability, and loss (including, without limitation, attorneys' fees, judgments, fines, taxes, penalties, and amounts paid or to be paid in settlement)

reasonably incurred or suffered by the Indemnitee in connection with any Proceeding (as defined in Subsection (e)). No indemnification pursuant to this Section shall be made, however, in any case where (1) the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness or (2) there is a settlement to which the Employer does not consent.

(b) The right to indemnification provided in this Section shall include the right to have the expenses reasonably incurred by the Indemnitee in defending any Proceeding paid by the Employer in advance of the final disposition of the Proceeding, to the fullest extent permitted by the law of the jurisdiction in which the Employer is incorporated; provided that, if such law requires, the payment of such expenses incurred by the Indemnitee in advance of the final disposition of a Proceeding shall be made only on delivery to the Employer of an undertaking, by or on behalf of the Indemnitee, to repay all amounts so advanced without interest if it shall ultimately be determined that the Indemnitee is not entitled to be indemnified under this Section or otherwise.

(c) Indemnification pursuant to this Section shall continue as to an Indemnitee who has ceased to be such and shall inure to the benefit of his heirs, executors, and administrators. The Employer agrees that the undertakings made in this Section shall be binding on its successors or assigns and shall survive the termination, amendment or restatement of the Plan.

(d) The foregoing right to indemnification shall be in addition to such other rights as the Indemnitee may enjoy as a matter of law or by reason of insurance coverage of any kind and is in addition to and not in lieu of any rights to indemnification to which the Indemnitee may be entitled pursuant to the by-laws of the Employer.

(e) For the purposes of this Section, the following definitions shall apply:

(1) "Indemnitee" shall mean each person serving as an Administrator (or any other person who is an employee, director, or officer of the Employer) who was or is a party to, or is threatened to be made a party to, or is otherwise involved in, any Proceeding, by reason of the fact that he is or was performing administrative functions under the Plan.

(2) "Proceeding" shall mean any threatened, pending, or completed action, suit, or proceeding (including, without limitation, an action, suit, or proceeding by or in the right of the Employer), whether civil, criminal, administrative, investigative, or through arbitration.

13.9 Successors. The provisions of the Plan shall bind and inure to the benefit of the Plan Sponsor, the Employer and their successors and assigns and the Participant and the Participant's designated Beneficiaries.

13.10 Disclaimer. It is the Plan Sponsor's intention that the Plan comply with the requirements of Code Section 409A. Neither the Plan Sponsor nor the Employer shall have any liability to any Participant should any provision of the Plan fail to satisfy the requirements of Code Section 409A.

13.11 Governing Law. The Plan will be construed, administered and enforced according to the laws of the State specified by the Plan Sponsor in Section 12.01 of the Adoption Agreement.

Centuri Construction Group
Long-Term Capital Investment Program

Centuri Construction Group (“**the Company**”) hereby creates, effective January 1, 2013, and revised 1/1/16 the NPL Long-Term Capital Investment Program (the “**Program**”) so that selected Company and Subsidiary officers will have a substantial personal financial interest in the Company’s future success. Unless otherwise indicated in this Program, capitalized terms that are not defined in this document, but which are defined in the Short Term and Long Term Incentive Plans (the “**Plan**”), will have the meaning given to them in the Plan.

I. Summary of the Program.

Under this Program, the Company’s officers (Vice Presidents and above) (collectively, the “**Participants**”) will become invested in the Centuri Executive Deferred Compensation Plan (the “**EDCP**”) investment option (the “**Performance Fund**”), the performance of which will be based on a financial measure of the Company’s or applicable subsidiaries performance. Amounts credited on behalf of a Participant to the Performance Fund will occur primarily through certain mandatory deferrals of the Participant’s Actual Awards. Under certain circumstances, a Participant may be permitted to electively defer into the Performance Fund additional amounts from Actual Awards and salary and/or to make a one-time transfer of existing EDCP balances into the Performance Fund. This Program calls for each Participant to reach a target dollar amount (“**Target Amount**”) deferred under the EDCP and allocated to the Performance Fund based on the following schedule:

- For a Participant who is NPL’s CEO – 3 times base salary
- For a Participant who is an NPL SVP – 2 times base salary
- For a Participant who is an NPL VP – 1 time base salary
- For a Participant who is an NPL Regional Manager – 1 time base salary

Performance Fund. Amounts credited to the Performance Fund will increase and decrease based on the Company’s or applicable subsidiaries financial performance. The investment rate of return on the Performance Fund (the “**NPL Growth Rate**”) may be positive or negative and will be determined by NPL in good faith on an annual basis as of December 31, and consistent with the following:

- For the calendar year ending on December 31, 2013, the NPL Growth Rate shall be the December 2012 average Moody’s Corporate Bond Index rate.
- For the calendar year ending on December 31, 2014, the NPL Growth Rate will be the average of (a) NPL’s EBITDA growth rate for the twelve-month period ending September 30, 2013 (i.e., percentage increase/decrease in EBITDA versus twelve month period ending September 30, 2012) and (b) NPL’s EBITDA growth rate for the twelve-month period ending September 30, 2014 (i.e., percentage increase/decrease in EBITDA versus twelve month period ending September 30, 2013).

- For the calendar year ending on December 31, 2015 and each subsequent year thereafter, the Company or applicable subsidiaries Growth Rate will be the average of the Company or applicable subsidiaries period to period EBITDA growth rate for each of the three twelve-month periods ending September 30 of the applicable year.
- Notwithstanding anything else in this Program, for calendar years starting January 1, 2014 and each subsequent calendar year thereafter, the maximum annual Company or applicable subsidiary Growth Rate loss shall be negative five percent and the maximum annual Growth Rate gain shall be positive fifteen percent.

For the purposes of this Program, "EBITDA" means the line item amount included on the Company or applicable subsidiaries Statement of Income representing earnings, before interest, taxes, depreciation, and amortization.

One-Time Allocation of EDCP Amounts to Performance Fund. A Participant may make a one-time EDCP election to transfer all or part of the amount credited to his/her EDCP "Separation from Service Accounts" (as defined in the EDCP) to the Performance Fund; *provided* such transfer is completed no later than March 31, 2013. This one-time allocation may not exceed the Participant's Target Amount. To the extent that NPL determines that a Participant's one-time allocation has satisfied the amount of an Actual Award for a Performance period that is subject to mandatory deferral (as described in the next paragraph), such mandatory deferral will not occur.

Mandatory Deferrals. 50% of a Participant's Actual Award for 2013 and 50% of a Participants Actual Award for 2014 shall be mandatorily deferred into the EDCP and allocated to the Performance Fund. In the event that a Participant does not receive a 2013 Actual Award and/or 2014 Actual Award, the 50% required deferral rule shall apply to the Participant's first two Actual Awards under the Plan. Notwithstanding the foregoing, no mandatory deferral will occur with respect to a Participant's Actual Award for a Performance Period if the Company's Human Resources Department determines that no additional required deferral is necessary because amounts credited, or to be credited, to the Participant's Performance Fund balance are expected to equal or exceed the Participant's Target Amount.

Following the mandatory deferrals described above, any Participant who has not met the Target Amount will be required to make additional deferrals (through the process described below under "*Elective Deferrals*") until the Participant's Performance Fund balance approximately equals or exceeds the Participant's Target Amount. Participants will have three years from the date of the second mandatory deferral of his or her Actual Awards pursuant to the first sentence of the previous paragraph in order to reach his/her Target Amount. Upon promotion to a position requiring a Target Amount with a larger multiple of salary, a Participant will be required to make deferrals to reach his or her new Target Amount within five years from the year of promotion.

Elective Deferrals. A Participant may, at such times and in such manner as required by the EDCP and subject to the above-described Target Amount limit or other Company Imposed limit, elect to defer into the EDCP and allocate to the Performance Fund (a) up to 80% of the Participant's Actual Award for a Performance Period that is not subject to mandatory deferral, and (b) up to 80% of the Participant's salary earned in a calendar year after 2013.

Distribution Payout Options. With regards to amounts mandatorily and electively deferred to the EDCP and allocated to the Performance Fund, Participants will be permitted to select any of the approved EDCP distribution payout options, with the exception of any "in-service" distribution option.

Sweep of Excess Amounts; No Other Transfers From Performance Fund. If the Participant's allocation to the Performance Fund as of January 1 of any year exceeds his or her Target Amount, the excess amount will be transferred from the Performance Fund to a default investment fund under the EDCP, after which the Participant will be permitted to allocate to one or more of the investment options then available under the EDCP. Any such sweep of excess amounts from the Performance Fund will be made from the most recent bonus class year allocated to the Performance Fund, followed by the most recent salary class year allocated to the Performance Fund, and then from the next most recent bonus class year, followed by the next most recent salary class year. **Sweeping of excess amounts is the only means by which funds may be transferred from the Performance Fund before a Participant's Separation From Service.**

Separation From Service. A Participant's participation in this Program shall cease upon a Separation From Service. Amounts allocated to the Performance Fund will be credited with interest for the calendar year in which the Participant incurs a Separation From Service equal to the average Moody's Corporate Bond Index rate as of the immediately preceding December, pro-rated based on the number of whole months of employment during the Plan Year (e.g., the Company or applicable subsidiary Growth Rate does not apply for the year in which the Separation From Service occurs). Within 30 days following Separation From Service, amounts not distributed to the Participant, per the Participant's distribution elections, will be allocated to an EDCP default investment fund, after which the Participant will be permitted to allocate to one or more of the other EDCP investment options then available.

The foregoing Summary is qualified in all respects by reference to the following Program Implementation provisions of the Program and the amendments and modifications to the Plan and the EDCP implemented pursuant thereto.

II. Program Implementation.

The Program will be implemented by (A) modifying the Plan (that is effective beginning with the NPL fiscal year ending December 31, 2013) as described in Section II.A below, and (B) adopting an EDCP amendment that amends the terms of the EDCP to make the changes discussed in Section II.B below.

A. Plan Provisions.

1) Overview

Plan Section 6 indicates that a Participant's Actual Award for a Performance Period will (a) be earned and vest when paid, and (b) be paid, subject to any deferral required or allowed hereunder, 50% in March of the calendar year following the end of the Performance Period, 25% in March of the second calendar year following the end of the Performance Period, and 25% in March of the third calendar year following the end of the Performance Period. A Participant's Actual Award for the Performance Period ending December 31, 2013 is hereinafter referred to as the "**2013 Bonus Award.**" A Participant's Actual Award for the Performance Period ending December 31, 2014 is hereinafter referred to as the "**2014 Bonus Award.**"

2) Required deferrals and the crediting of Fund investment returns on such deferrals.

The Bonus Plan's above-described payment provisions are modified as follows:

50% of a Participant's 2013 Bonus Award and 2014 Bonus Award shall not be paid, or made available, to the Participant but shall instead be (a) deferred into the EDCP, (b) credited with Performance Fund investment returns as provided in the EDCP, and (c) distributed from the EDCP at such time and in such manner as the Participant elects, or is deemed to have elected, under the EDCP's distribution and default election rules. In the event a Participant does not receive a 2013 Bonus Award and/or 2014 Bonus Award, the 50% required deferral rule shall apply to the Participant's first two Actual Awards.

Notwithstanding the foregoing, no automatic deferral will occur with respect to a Participant's Actual Award for a Performance Period if, prior to the time an EDCP deferral election is required to be made for the Performance Period, (a) the Company notifies the Participant that the Company has determined that no additional required deferral is necessary because amounts credited, or to be credited, to the Fund on behalf of the Participant are expected to equal or exceed the Participant's Target Amount, or (b) NPL determines that a Participant's One-Time Allocation (as defined below) has satisfied the amount subject to mandatory deferral. If a Participant's Target Amount subsequently increases due to a job promotion, the Participant must, within five years from the end of the Performance Period in which the promotion is effective, elect (at the times and in the manner set forth in the EDCP) to make additional EDCP deferrals that are to be credited to the Performance Fund until the Fund balance approximately equals or exceeds the Participant's new Target Amount.

To the extent that all or part of a Participant's Actual Award for a Performance Period is required to be deferred into the EDCP, the amount deferred will be credited with Performance Fund investment returns and the Participant shall, in a manner prescribed by the EDCP, elect to have such deferred amounts paid out on or after, but not before, the Participant's Separation From Service.

3) Elective deferrals and the crediting of Fund investment returns on such deferrals.

A Participant may, at such times and in such manner as allowed by the EDCP and subject to the above-described Target Amount limit or other NPL Imposed limit, elect to defer into the EDCP, and have credited with Performance Fund investment returns, (a) up to 80% of the Participant's Actual Award for a Performance Period that is not automatically deferred under Section II.A(2) above, and (b) up to 80% of the Participant's salary earned in a calendar year after 2013. If a Participant elects to have an amount deferred into the EDCP and credited with Performance Fund investment returns, the Participant shall also elect to have such deferred amounts paid out on or after, but not before, the Participant's separation from service.

B. Changes to the NPL Executive Deferred Compensation Plan.

1. Performance Fund investment option.

The EDCP will be amended to describe (a) the Performance Fund and how Performance Fund investment performance will be determined for 2013, 2014, 2015 and later EDCP plan years (the EDCP plan year is the calendar year) for participants who have not incurred a Separation From Service during the year, (b) how, prior to March 31, 2013, an existing EDCP participant may elect to transfer to the Performance Fund, subject to the participant's Target Amount limit, amounts that the participant has credited to other EDCP investment options and that are only payable on or following the participant's Separation From Service ("One-Time Allocation"), (c) how, when and the extent to which, amounts will be transferred out of the Performance Fund if a participant's Performance Fund balance exceeds the participant's Target Amount, (d) how and when a participant's Performance Fund balances will be transferred out of the Performance Fund and into a default fund, or a fund elected by the participant, following a participant's Separation From Service, and (5) how Performance Fund performance will be determined for a participant for the portion of the EDCP plan year in which a participant incurs a Separation From Service and has a Performance Fund balance.

2. Deferrals credited with Performance Fund investment performance can only be distributed due to Separation From Service.

EDCP participants will be permitted, at the time and in the manner set forth in the EDCP, to select among the EDCP's distribution options and specify the manner and time in which amounts that are deferred into the EDCP, and credited with Performance Fund investment performance, will be paid out; *provided*, however, that participants may not elect to have such amounts paid out prior to their Separation From Service.

3. Deferrals credited with Performance Fund investment performance will vest upon being credited to the Fund.

Deferrals credited to the Performance Fund, and the investment results attributable thereto, will vest immediately upon being credited to the Performance Fund.



Short Term Incentive Program
Centuri Construction Group

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Plan Objectives

- Attract, motivate and retain top talent
- Align incentives with corporate strategy and business priorities
- Motivate and energize employees to achieve company objectives
- Provide an adequate financial return at reasonable cost
- Serve as an understanding between the employee and his/her supervisor regarding individual performance goals, matching rewards, and timing of incentive payments

Eligibility and Incentive Opportunity

This Plan applies to Centuri Construction Group, Inc. (“Centuri”). Eligible employees are those whose job position is designated by Centuri’s Compensation Steering Committee (the “Committee”) (consisting of the President & CEO and the Vice-President/Human Resources and such others as they may select) as eligible for incentives covered by this Plan.

Eligible employees will be notified in writing of their eligibility and target opportunity (expressed as a percentage of Base Pay at target performance) *and must be actively employed at Centuri or by one of its subsidiaries at time of payout* or, in the Plan Year to which a STIP award is earned, have terminated Centuri employment due to death, disability, or retirement on or after age 59 ½. The term “Base Pay” is defined later in this document.

Eligibility begins the first of the month immediately following completion of one full-month of employment. For employees completing a partial year as an eligible participant, the bonus will be prorated based on complete months worked from date of Plan eligibility. If employment begins during the 12th month of the Plan year, participants will become eligible to participate on a prorated basis in the next Plan year. A “Plan year” runs from January 1 and ends December 31.

Example#1: Employee is hired February 10th Become eligible participant on April 1st.

Receives prorated bonus for nine months of the year.

Example#2: Employee is hired December 10th. Become eligible participant on February 1st.

Receives prorated bonus for eleven months of the year.

Fail Safe

If Centuri does not achieve a minimum threshold of its pre-tax profit goal for the Plan year, the Plan will not pay any awards. There will be no bonuses paid unless the fail-safe requirements are met.

Performance Measures, Weights, and Goals

The incentive pay under this Plan is based on three performance measures or components:

1. Corporate annual pre-tax profit,
2. Safety DART
3. Individual goals.

Attainment of targeted goals from all three components combined add up to 100% of the total target incentive opportunity. The incentive payments will vary based on actual performance. Measures, weights and measurement levels are as follows:

<u>Performance Measure</u>	<u>Weight</u>	<u>Measurement Level</u>
Corporate annual pre-tax profit	60%	Corporate
Safety (DART)	20%	Corporate
Individual Goals	20%	Individual

At the beginning of the Plan year, the Centuri executive team will set a corporate profitability goal (on a consolidated basis that, except for Centuri's executive team, will be limited to U.S. subsidiaries only), as reviewed and approved by the President & CEO, which represents the aggregate pre-tax profit from appropriate business units and projects. This will be the baseline against which final performance is measured for calculating payout of the corporate component of the Plan.

The safety goal will be based on the AGA's industry standard measurement for safety known as DART.

Managers will set no less than four and no more than five individual goals for their direct reports. The extent to which an eligible employee achieves these goals will be used to calculate his or her award for the Individual Goals component.



<u>Performance</u>		<u>Award</u>
Excellence	125%	170%
Target	100%	100%
Threshold	70%	65%
Not Qual.	<70%	0%
Fail Safe	TBD: 50%	No Bonus

<u>Performance</u>		<u>Award</u>
Excellence	TBD	170%
Target	1.0	100%
Threshold	TBD	65%

<u>Performance</u>		<u>Award</u>
Excellence	5 of 5	170%
Good	4 of 5	120%
Target	3 of 5	100%
OK	2 of 5	80%
Threshold	1 of 5	65%

Weights: 60%
Goal Metric:
 Corporate annual pre-tax profit

20%
Goal Metric:
 Safety (DART)

20%
Goal Metric:
 4 Individual goals +
 1 Discretion (1 or 0)

Corporate Net Profit Performance Incentive

The incentive Plan pays for corporate achievement of a Plan goal defined as pre-tax profit. The incentive Plan begins paying out when Centuri (on a consolidated basis for U.S. subsidiaries) achieves 70% of the pre-tax profit goal. At 70% achievement, the payout would be 65% of the participant’s target award. Excellence is defined as achievement of 125% of the pre-tax profit goal with payouts of 170% of the target award. Payment for this and each of the other two components, if earned, would occur on or before March 15th of the ensuing year (e.g. a payment for 2016 performance would occur on or before March 15, 2017). Awards for levels of performance between threshold and excellence are enumerated in the payout tables in this Plan document.

The safety goal will be based on the AGA’s industry standard measurement for safety known as DART. The peer group data will be used as a benchmark for establishing this goal. The target is consistent annually at 1.0, representing a significantly lower score than the industry peer group. The threshold is set at the 3 year median of scores and the maximum is set at the 3 year average minimum score reported to the AGA by the industry peer group.

Individual Goals Incentive

The Individual component of the incentive Plan pays for the employee's achievement of four standard goals established by his or her manager. An additional goal is within the discretion of the manager. Plan participants will receive their goals from managers in the early months of the Plan year or at the time of Plan eligibility. The individual component of the Plan begins paying out at the achievement of at least one of the individual goals which would pay 65% of the participant's target award. The individual incentive award caps at payout of 170% of the target award at an excellence level of the attainment of all five individual goals. The individual goals are equally weighted with respect to impact on payout.

Terms and Conditions

The following Terms and Conditions are applicable to all eligible incentive Plan participants. This document supersedes all previous Plans and letters.

This Plan is a statement of compensation guidelines and is not a guarantee to any particular employee that any amount of bonus will be paid.

Expression of salary or any other form of compensation in terms of an annual period or any other period shall not be construed as a contract of employment for the duration of the annual period or any other period.

Only the President & CEO of Centuri Construction Group, Inc. may change these terms and conditions and must do so in writing. No oral representations that may be made are effective in modifying the terms of this Plan. This Plan does not create a contract of employment for any specific term.

The Company retains the exclusive right to make modifications as necessary.

TIMING AND FORM OF PAYMENTS

Annual incentive payments will in all events be paid through payroll, with all required withholdings, on or before March 15th of the calendar year following the Plan year in which the incentive payment is earned.

LONG TERM CASH INCENTIVE PLAN (Officers Only)

To the extent that payments to Officers under this Plan are subject to the LTCIP deferral requirements and to the extent the terms of this Plan and the LTCIP conflict, the terms of the LTCIP shall control and are hereby incorporated by reference.

TARGET INCENTIVES

Individual incentive targets for eligible participants will be provided to employees in a separate communication.

ENTRY, TRANSFER AND EXIT FROM THE INCENTIVE PLAN

A "Plan Year" runs from January 1 through December 31. If an employee is not eligible at the start of a Plan year but becomes so later, he or she will be eligible to receive a prorated portion of the incentive payment based on full-calendar months worked while eligible.

Any person whose employment terminates (voluntarily or involuntarily) prior to the end of the Plan year becomes ineligible for the Plan and will not receive an incentive payment *unless* termination occurs (i) in accepting employment at a Centuri subsidiary, (ii) is by death, or (iii) retirement at no earlier than age 59 ½ (in either case, payment will be prorated based on months as an eligible participant during the Plan year at issue). Claims or disputes are time-barred under this Plan if not raised within 30 days immediately following termination.

JOB PROMOTIONS

When a Plan participant is promoted to a position with a higher-level target incentive opportunity, the participant will receive the higher target incentive opportunity for the full-months worked in the new position. The incentive opportunity is prorated based on the employee's Base Pay and position at any point during the Plan year.

BASE PAY / BONUS ELIGIBLE WAGES

Base Pay will be defined as W-2 income at 12/31 of the Plan Year, including overtime and disability pay, adjusted upward to reflect pre-tax deductions, but excluding benefits, bonuses or any other supplemental compensation.

NON-PAYMENT AND RECOVERY OF INCENTIVES

The Company reserves the right to recover, through whatever means it deems appropriate, part or all of the incentives paid that are later deemed not valid due to any Accounting error resulting in an overpayment to any participant(s).

PLAN AMENDMENT/ADMINISTRATION

The Board of Directors of Centuri Construction Group, Inc. (the "Board") may, at any time, and in its discretion, alter, amend, modify, suspend or terminate the Plan or any portion thereof; provided, however, that no such amendment, modification, suspension or termination may be retroactive with regard to any Plan year.

The Plan shall be administered by the "Committee" or its express delegate, which shall have the authority to:

- (a) designate such job positions as may be eligible for participation in the Plan;
- (b) construe and interpret the Plan and apply its provisions;

(c) promulgate, amend and rescind rules and regulations relating to administration of the Plan; and

(d) exercise discretion to make any and all other determinations deemed by the Committee as necessary or advisable for administration of the Plan.

Board/Committee determinations need not be uniform and any such determinations may be made selectively among participants.

All decisions by the Board or Committee shall be final and binding upon any participating company or employee.

SECTION 409A

It is intended that the time and form of Plan payments will fit into the short term deferral exception to the application of Section 409A of the Internal Revenue Code of 1986 as amended. For purposes of this Plan, the rules, regulations, and published guidance of the Internal Revenue Service pursuant to Internal Revenue Code Section 409A are hereinafter collectively referred to as "Section 409A." In the event that one or more Plan payments are determined to be subject to Section 409A:

- (a) Neither Centuri nor any of its affiliates shall be liable for any additional tax, interest or penalties that may be imposed on a participant as a result of Section 409A or any damages for failing to comply with Section 409A (other than for withholding obligations or other obligations applicable to employers, if any, under Section 409A); and
- (b) Notwithstanding any provision in this Plan to the contrary, (i) the Plan shall be interpreted and administered such that such payment(s) comply(ies) to the fullest extent possible with Section 409A, and (ii) each Plan payment shall be deemed to be a separate and distinct payment for purposes of Section 409A.

SOUTHWEST GAS HOLDINGS, INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Thousands of dollars)

	Jun 30, 2017	For the Twelve Months Ended				
		December 31,				
		2016	2015	2014	2013	2012
1. Fixed charges:						
A) Interest expense	\$ 74,428	\$ 73,000	\$ 71,661	\$ 71,234	\$ 62,958	\$ 67,148
B) Amortization	1,794	1,835	1,884	2,063	2,002	2,001
C) Interest portion of rentals	19,862	19,438	16,678	11,802	11,809	10,605
Total fixed charges	<u>\$ 96,084</u>	<u>\$ 94,273</u>	<u>\$ 90,223</u>	<u>\$ 85,099</u>	<u>\$ 76,769</u>	<u>\$ 79,754</u>
2. Earnings (as defined):						
D) Pretax income from continuing operations	\$232,505	\$231,523	\$219,332	\$219,521	\$222,815	\$207,915
Fixed Charges (1. above)	96,084	94,273	90,223	85,099	76,769	79,754
Total earnings as defined	<u>\$328,589</u>	<u>\$325,796</u>	<u>\$309,555</u>	<u>\$304,620</u>	<u>\$299,584</u>	<u>\$287,669</u>
	<u>3.42</u>	<u>3.46</u>	<u>3.43</u>	<u>3.58</u>	<u>3.90</u>	<u>3.61</u>

Certification of Southwest Gas Holdings, Inc.

I, John P. Hester, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Gas Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ JOHN P. HESTER

John P. Hester
President and Chief Executive Officer
Southwest Gas Holdings, Inc.

Certification of Southwest Gas Holdings, Inc.

I, Roy R. Centrella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Gas Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ ROY R. CENTRELLA

Roy R. Centrella

Senior Vice President/Chief Financial Officer
Southwest Gas Holdings, Inc.

Certification of Southwest Gas Corporation

I, John P. Hester, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Gas Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ JOHN P. HESTER

John P. Hester
President and Chief Executive Officer
Southwest Gas Corporation

Certification of Southwest Gas Corporation

I, Roy R. Centrella, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Southwest Gas Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

/s/ ROY R. CENTRELLA

Roy R. Centrella
Senior Vice President/Chief Financial Officer
Southwest Gas Corporation

SOUTHWEST GAS HOLDINGS, INC.

CERTIFICATION

In connection with the periodic report of Southwest Gas Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, John P. Hester, the President and Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: August 8, 2017

/s/ John P. Hester

John P. Hester

President and Chief Executive Officer

CERTIFICATION

In connection with the periodic report of Southwest Gas Holdings, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, Roy R. Centrella, Senior Vice President/Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: August 8, 2017

/s/ Roy R. Centrella

Roy R. Centrella

Senior Vice President/Chief Financial Officer

SOUTHWEST GAS CORPORATION

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, John P. Hester, the President and Chief Executive Officer of Southwest Gas Corporation, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Southwest Gas Corporation at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: August 8, 2017

/s/ John P. Hester

John P. Hester

President and Chief Executive Officer

SOUTHWEST GAS CORPORATION

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission (the "Report"), I, Roy R. Centrella, Senior Vice President/Chief Financial Officer of Southwest Gas Corporation, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Southwest Gas Corporation at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Dated: August 8, 2017

/s/ Roy R. Centrella

Roy R. Centrella

Senior Vice President/Chief Financial Officer