

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1994

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-7850

SOUTHWEST GAS CORPORATION  
(Exact name of registrant as specified in its charter)

California  
(State or other jurisdiction of  
incorporation or organization)

88-0085720  
(I.R.S. Employer  
Identification No.)

5241 Spring Mountain Road  
Post Office Box 98510  
Las Vegas, Nevada  
(Address of principal executive offices)

89193-8510  
(Zip Code)

Registrant's telephone number, including area code: (702) 876-7237

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to  
such filing requirements for the past 90 days.

Yes (  ) No (  )

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

Common Stock, \$1 Par Value 21,052,989 shares as of August 8, 1994



## ITEM 1. FINANCIAL STATEMENTS

The condensed consolidated financial statements included herein have been prepared by Southwest Gas Corporation (the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all adjustments, consisting of normal recurring items necessary for a fair presentation of the results for the interim periods, have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's 1993 Annual Report on Form 10-K, and 1994 first quarter report on Form 10-Q.



SOUTHWEST GAS CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
 (Thousands of dollars)  
 (Unaudited)

	JUNE 30, 1994	DECEMBER 31, 1993
	-----	-----
<b>ASSETS</b>		
Cash and cash equivalents	\$ 112,241	\$ 121,342
Debt securities available for sale (at fair value)	536,852	595,726
Debt securities held to maturity (fair value of \$67,720 and \$68,738)	69,169	69,660
Loans receivable, net of allowance for estimated losses of \$16,443 and \$16,251	885,788	817,279
Loans receivable held for sale (fair value of \$3,839 and \$22,019)	3,839	20,051
Receivables, less reserves for uncollectibles	43,775	98,265
Gas utility property, net of accumulated depreciation	985,559	954,488
Real estate held for sale or development, net of allowance for estimated losses of \$485 and \$935	1,353	4,088
Real estate acquired through foreclosure	8,001	9,707
Other property, net of accumulated depreciation	36,299	36,495
Excess of cost over net assets acquired	67,570	69,501
Other assets	132,640	147,347
	-----	-----
	\$ 2,883,086	\$ 2,943,949
	=====	=====
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
Deposits	\$ 1,227,234	\$ 1,207,852
Securities sold under agreements to repurchase	233,951	259,041
Deferred income taxes and tax credits, net	142,014	151,558
Accounts payable and other accrued liabilities	167,687	194,697
Notes payable	56,000	86,000
Long-term debt, including current maturities	708,199	692,865
	-----	-----
	2,535,085	2,592,013
	-----	-----
Preferred and preference stocks, including current maturities	8,058	8,058
	-----	-----
Common stock	22,658	22,627
Additional paid-in capital	274,890	274,410
Capital stock expense	(5,685)	(5,685)
Unrealized gain, net of tax, on debt securities available for sale	80	8,761
Retained earnings	48,000	43,765
	-----	-----
	339,943	343,878
	-----	-----
	\$ 2,883,086	\$ 2,943,949
	=====	=====

The accompanying notes are an integral part of these statements.



SOUTHWEST GAS CORPORATION 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,	
	1994	1993	1994	1993	1994	1993
Operating revenues:						
Gas operating revenues	\$ 108,407	\$ 100,306	\$ 315,776	\$ 282,755	\$ 572,126	\$ 533,013
Financial services interest income	29,124	34,976	57,169	70,973	118,521	144,189
Other	2,646	2,689	6,387	4,804	19,994	14,876
	-----	-----	-----	-----	-----	-----
	140,177	137,971	379,332	358,532	710,641	692,078
Operating expenses:						
Net cost of gas purchased	48,439	39,697	145,435	126,437	231,288	212,542
Financial services interest expense, net	14,200	20,906	28,249	43,146	60,179	91,089
Operating expense	41,751	41,101	82,982	81,857	166,274	161,678
Maintenance expense	7,324	7,380	14,063	14,008	28,393	27,923
Provision for estimated credit losses	1,908	1,397	3,756	2,758	8,220	12,294
Depreciation, depletion and amortization	16,340	15,994	32,402	31,743	64,241	62,854
Taxes other than income taxes	6,246	5,964	12,741	12,424	25,078	23,681
Other	4,296	10,933	8,577	15,623	18,799	25,393
	-----	-----	-----	-----	-----	-----
	140,504	143,372	328,205	327,996	602,472	617,454
Operating income (loss)	(327)	(5,401)	51,127	30,536	108,169	74,624
Other income and (expenses):						
Net interest deductions	(13,795)	(12,124)	(27,410)	(24,219)	(52,897)	(47,517)
Other income (deductions), net	(1,162)	3	(1,380)	103	(15,735)	(1,146)
	-----	-----	-----	-----	-----	-----
	(14,957)	(12,121)	(28,790)	(24,116)	(68,632)	(48,663)
Income (loss) before income taxes	(15,284)	(17,522)	22,337	6,420	39,537	25,961
Income tax expense (benefit)	(5,503)	(4,450)	9,408	5,411	15,257	11,651
	-----	-----	-----	-----	-----	-----
Net income (loss) before cumulative effect of accounting change	(9,781)	(13,072)	12,929	1,009	24,280	14,310
Cumulative effect of change in method of accounting	--	--	--	3,045	--	3,045
	-----	-----	-----	-----	-----	-----
Net income (loss)	(9,781)	(13,072)	12,929	4,054	24,280	17,355
Preferred/preference stock dividend requirements	138	203	277	409	608	917
	-----	-----	-----	-----	-----	-----
Net income (loss) applicable to common stock	\$ (9,919)	\$ (13,275)	\$ 12,652	\$ 3,645	\$ 23,672	\$ 16,438
	=====	=====	=====	=====	=====	=====
Earnings (loss) per share before cumulative effect of accounting change	\$ (0.47)	\$ (0.64)	\$ 0.60	\$ 0.03	\$ 1.13	\$ 0.65
Earnings per share from cumulative effect of change in method of accounting	--	--	--	0.15	--	0.15
	-----	-----	-----	-----	-----	-----
Earnings (loss) per share of common stock	\$ (0.47)	\$ (0.64)	\$ 0.60	\$ 0.18	\$ 1.13	\$ 0.80
	=====	=====	=====	=====	=====	=====
Dividends paid per share of common stock	\$ 0.195	\$ 0.175	\$ 0.390	\$ 0.350	\$ 0.780	\$ 0.700
	=====	=====	=====	=====	=====	=====
Average number of common shares outstanding	21,028	20,630	21,026	20,614	20,933	20,606
	=====	=====	=====	=====	=====	=====

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,	
	1994	1993	1994	1993
<b>CASH FLOW FROM OPERATING ACTIVITIES:</b>				
Net income	\$ 12,929	\$ 4,054	\$ 24,280	\$ 17,355
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation, depletion and amortization	32,402	31,743	64,241	62,854
Change in unrecovered purchased gas costs	8,085	(4,963)	(20,523)	(11,083)
Change in deferred income taxes	(9,547)	18,755	(1,101)	17,657
Change in deferred charges and credits	(5,408)	(4,736)	(3,226)	(16,226)
Change in provision for estimated losses	3,756	2,758	8,220	12,294
Change in noncash working capital	45,022	34,185	14,338	25,530
Loss on sale of Arizona assets and services	--	6,160	102	6,160
Cumulative effect of change in method of accounting for income taxes	--	(3,045)	--	(3,045)
Other	2,611	(270)	8,369	(4,517)
Net cash provided by operating activities	89,850	84,641	94,700	106,979
<b>CASH FLOW FROM INVESTING ACTIVITIES:</b>				
Construction expenditures	(63,780)	(50,756)	(128,448)	(117,701)
Purchases of debt securities	(75,929)	(67,190)	(121,817)	(431,899)
Proceeds from sale of debt securities	3,559	19,837	344,575	61,838
Maturities and repayment of debt securities	120,512	127,863	286,437	281,799
Loan originations, net of repayments	(87,274)	(90,538)	(183,345)	(189,158)
Sales of loans and loan servicing rights	31,308	37,371	72,290	161,785
Proceeds from sales of real estate held for development	2,860	1,345	3,441	7,272
Proceeds from sales of real estate acquired through foreclosure	2,048	5,246	19,718	15,828
Acquisition of real estate held for development	(172)	(351)	(3,032)	(2,194)
Proceeds from sale of Arizona assets and services	--	--	6,718	--
Other	(3,228)	1,632	(7,270)	(2,661)
Net cash provided by (used in) investing activities	(70,096)	(15,541)	289,267	(215,091)
<b>CASH FLOW FROM FINANCING ACTIVITIES:</b>				
Net proceeds from (repayments of) repurchase agreements and other borrowings	(25,090)	(77,226)	(65,682)	130,810
Change in deposit accounts	19,382	(30,591)	(42,842)	(121,016)
Issuance of long-term debt	17,000	5,000	98,909	117,422
Retirement of long-term debt	(1,666)	(18,467)	(31,765)	(131,712)
Issuance (repayment) of notes payable	(30,000)	(5,000)	41,000	15,000
Dividends paid	(8,444)	(7,623)	(16,960)	(15,364)
Sale and assumption of Arizona deposit liabilities	--	--	(320,902)	--
Issuance of common stock	511	1,850	5,451	1,850
Other	(548)	(1,116)	(7,503)	(7,181)
Net cash used in financing activities	(28,855)	(133,173)	(340,294)	(10,191)
Net change in cash and cash equivalents	(9,101)	(64,073)	43,673	(118,303)
Balance at beginning of period	121,342	132,641	68,568	186,871
Balance at end of period	\$ 112,241	\$ 68,568	\$ 112,241	\$ 68,568
<b>Supplemental disclosures of cash flow information</b>				
Cash paid during the year for:				
Interest, net of amounts capitalized	\$ 34,672	\$ 34,287	\$ 67,270	\$ 61,749
Income taxes, net of refunds	2,425	16,121	(2,713)	5,032

The accompanying notes are an integral part of these statements.



## Note 1 - Summarized Consolidated Financial Statement Data

Summarized consolidated financial statement data for PriMerit Bank is presented below:

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Thousands of dollars)  
(Unaudited)

	JUNE 30, 1994	DECEMBER 31, 1993
	-----	-----
<b>ASSETS</b>		
Cash and cash equivalents	\$ 109,928	\$ 119,215
Debt securities available for sale (at fair value)	536,852	595,726
Debt securities held to maturity (fair value of \$67,720 and \$68,738)	69,169	69,660
Loans receivable, net of allowance for estimated credit losses of \$16,443 and \$16,251	885,788	817,279
Loans receivable held for sale (fair value of \$3,839 and \$22,019)	3,839	20,051
Real estate held for sale or development, net of allowance for estimated losses of \$485 and \$935	1,353	4,088
Real estate acquired through foreclosure	8,001	9,707
Excess of cost over net assets acquired	67,570	69,501
FHLB stock, at cost	16,821	16,501
Other assets	33,284	29,691
	-----	-----
	<b>\$1,732,605</b>	<b>\$1,751,419</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Deposits	\$1,227,234	\$1,207,852
Securities sold under agreements to repurchase	233,951	259,041
Advances from FHLB	71,000	71,000
Notes payable	8,200	8,265
Other liabilities	19,593	28,318
	-----	-----
Stockholder's equity	1,559,978	1,574,476
	172,627	176,943
	-----	-----
	<b>\$1,732,605</b>	<b>\$1,751,419</b>
	=====	=====

/TABLE



## Note 1 - Summarized Consolidated Financial Statement Data (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Thousands of dollars)  
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,		TWELVE MONTHS ENDED JUNE 30,	
	1994	1993	1994	1993	1994	1993
Interest income	\$ 29,124	\$ 34,976	\$ 57,169	\$ 70,973	\$118,521	\$144,189
Interest expense	14,200	20,906	28,249	43,146	60,179	91,089
Net interest income	14,924	14,070	28,920	27,827	58,342	53,100
Provision for estimated credit losses	(2,275)	(1,180)	(3,709)	(2,303)	(7,618)	(5,600)
Net interest income after provision for credit losses	12,649	12,890	25,211	25,524	50,724	47,500
Income from real estate operations	228	11	157	86	171	581
Decrease (increase) in provision for estimated real estate losses	367	(217)	(47)	(455)	(602)	(6,694)
Net income (loss) from real estate operations	595	(206)	110	(369)	(431)	(6,113)
Gain on sale of loans	116	428	364	983	1,216	4,509
Loss on sale of loans	(113)	(18)	(269)	(45)	(308)	(1,088)
Net gain on sale of debt securities	--	196	33	372	7,634	2,452
Gain on sale of mortgage loan servicing	--	--	--	--	--	1,930
Gain (loss) on secondary marketing hedging activity	191	(163)	322	(754)	108	(754)
Loss on interest rate swaps	--	--	--	--	--	(1,652)
Loan related fees	429	351	666	635	1,056	1,579
Deposit related fees	1,736	1,602	3,231	3,014	6,614	5,716
Gain on sale of credit cards	--	--	1,690	--	1,690	--
Loss on sale - Arizona branches	--	(6,160)	--	(6,160)	(102)	(6,160)
Other income	59	282	193	513	1,813	1,603
General and administrative expenses	15,662	9,202	31,551	23,713	70,014	49,522
Amortization of cost in excess of net assets acquired	10,773	12,186	21,761	24,175	45,882	48,139
Income (loss) before income taxes	3,924	(3,998)	7,859	(2,515)	20,270	(2,748)
Income tax expense	1,748	719	3,494	1,593	8,246	2,391
Net income (loss) before cumulative effect of accounting change	2,176	(4,717)	4,365	(4,108)	12,024	(5,139)
Cumulative effect of change in method of accounting	--	--	--	3,045	--	3,045
Net income (loss)	\$ 2,176	\$ (4,717)	\$ 4,365	\$ (1,063)	\$ 12,024	\$ (2,094)
Contribution to consolidated net income (loss) (a)	\$ 954	\$ (5,966)	\$ 1,930	\$ (3,532)	\$ 7,117	\$ (7,073)

(a) Includes after-tax allocation of costs from parent.



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

The Company is comprised of two business segments; natural gas operations and financial services. The gas segment purchases, transports and distributes natural gas to residential, commercial and industrial customers in geographically diverse portions of Arizona, Nevada and California. The financial services segment consists of PriMerit Bank (the Bank), a wholly owned subsidiary, which is engaged in retail and commercial banking. The Bank's principal business is to attract deposits from the general public and make consumer and commercial loans secured by real estate and other collateral. For the twelve months ended June 30, 1994, the natural gas operations segment contributed \$17.2 million and the financial services segment contributed \$7.1 million, resulting in consolidated net income of \$24.3 million.

CONSOLIDATED CAPITAL RESOURCES AND LIQUIDITY

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

In May 1994, the Board of Directors declared a quarterly common stock dividend of 20.5 cents per share payable September 1, 1994, a five percent increase from the previous level. The increase was established in accordance with the Company's dividend policy which states that the Company will pay common stock dividends at a prudent level that is within the normal dividend payout range for its respective businesses, and that the dividend will be established at a level considered sustainable in order to minimize business risk and maintain a strong capital structure throughout all economic cycles.

The Company's unsecured debt is rated Ba1 by Moody's Investors Service, BBB- by Standard and Poor's Ratings Group and BB+ by Duff and Phelps Credit Rating Company.

See separate discussions of the capital resources and liquidity for each segment.

RESULTS OF CONSOLIDATED OPERATIONS

Quarterly Analysis

	Contribution to Consolidated Net Loss Three Months Ended June 30,	
	1994	1993
	(Thousands of dollars)	
Natural gas operations segment	\$ (10,735)	\$ (7,106)
Financial services segment	954	(5,966)
Consolidated net loss	\$ (9,781)	\$ (13,072)

See separate discussions of each business segment for an analysis of these changes.





## Six Month Analysis

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Contribution to Consolidated Net Income  
Six Months Ended June 30,

-----

1994 1993

-----

(Thousands of dollars)

Natural gas operations segment	\$ 10,999	\$ 7,586
Financial services segment	1,930	(6,577)
Financial services segment cumulative effect of accounting change	--	3,045
	-----	-----
Consolidated net income	\$ 12,929	\$ 4,054
	=====	=====

See separate discussions of each business segment for an analysis of these changes.

## Twelve Month Analysis

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Contribution to Consolidated Net Income  
Twelve Months Ended June 30,

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1994 1993

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(Thousands of dollars)

Natural gas operations segment	\$ 17,163	\$ 24,428
Financial services segment	7,117	(10,118)
Financial services segment cumulative effect of accounting change	--	3,045
	-----	-----
Consolidated net income	\$ 24,280	\$ 17,355
	=====	=====

See separate discussions of each business segment for an analysis of these changes.

## NATURAL GAS OPERATIONS SEGMENT

The Company is engaged in the business of purchasing, transporting, and distributing natural gas in portions of Arizona, Nevada and California. Its several service areas are geographically as well as economically diverse. The Company is the largest distributor in Arizona, selling and transporting gas in most of southern, central, and northwestern Arizona. The Company is also the largest distributor and transporter of natural gas in Nevada. The Company also distributes and transports gas in portions of California, including the Lake Tahoe area and high desert and mountain areas in San Bernardino County.

For the twelve months ended June 30, 1994, 56 percent of operating margin was earned in Arizona, 33 percent in Nevada and 11 percent in California. This pattern is consistent with prior years and is expected to continue.

For the twelve months ended June 30, 1994, the Company's natural gas construction expenditures totaled \$126 million, a 10 percent increase when compared to \$115 million of additions for the same period ended a year ago. The increase is attributed to the investment in new distribution plant in Arizona and southern Nevada to meet the demand from the Company's growing customer base.

## CAPITAL RESOURCES AND LIQUIDITY

The Company currently estimates that construction expenditures for the gas segment during 1994 through 1996 will be approximately \$410 million, and debt maturities and repayments, and other cash requirements are expected to



approximate \$190 million. Often times there are differences between estimated and actual results, because actual events and circumstances frequently do not occur as expected, and those differences may be significant.

It is currently estimated that cash flow from operating activities (net of dividends) will generate approximately 45 percent of the gas segment's total cash requirements during 1994 through 1996. A portion of the remaining funding requirements will be provided by \$102 million of IDRB funds held in trust from the 1993 Series A issues. The remaining cash requirements, including debt refinancings, are expected to be provided by external financing sources. The timing, types, and amounts of these additional external financings will be dependent on a number of factors, including conditions in the capital markets, timing and amounts of rate relief, and growth factors in the Company's service areas. These external financings may include the issuance of both debt and equity securities, bank and other short-term borrowings, and other forms of financing.

#### RESULTS OF NATURAL GAS OPERATIONS

##### Quarterly Analysis

	Three Months Ended June 30,	
	1994	1993
	(Thousands of dollars)	
Gas operating revenues	\$ 108,407	\$ 100,306
Net cost of gas	48,439	39,697
Operating margin	59,968	60,609
Operations and maintenance expense	43,673	42,416
Depreciation and amortization	14,381	13,789
General taxes	6,165	5,808
Operating loss	(4,251)	(1,404)
Other income (expense), net	(1,162)	3
Loss before interest and income taxes	(5,413)	(1,401)
Net interest deductions	13,795	12,124
Income tax expense (benefit)	(7,251)	(5,170)
Net loss before allocation to the Bank	(11,957)	(8,355)
Costs allocated to the Bank, net of tax	1,222	1,249
Contribution to consolidated net loss	\$ (10,735)	\$ (7,106)

Contribution to consolidated net loss increased \$3.6 million, or 51 percent, compared to the second quarter of 1993. This was the result of increased operations and maintenance expense, depreciation expense and net interest deductions.

Operating margin decreased \$641,000, or one percent, when compared to the same period ended a year ago. Differences in heating demand between periods accounted for the decrease.

Operations and maintenance expenses increased \$1.3 million, or three percent, reflecting general increases in labor and maintenance costs associated with meeting the needs of the Company's increasing customer base.

Depreciation expense increased \$591,000, or four percent, resulting from an increase in average gas plant in service of \$76 million, or six percent, during the second quarter of 1994. This increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

Net interest deductions increased \$1.7 million, or 14 percent, over the prior period. The increase is the result of a \$37 million increase in average long-term debt and a \$36 million increase in average short-term debt



outstanding during the period. The increase in debt is attributed primarily to borrowings for construction expenditures, including the draw down of a portion of IDRB funds previously held in trust.

## Six Month Analysis

	Six Months Ended June 30,	
	1994	1993
	(Thousands of dollars)	
Gas operating revenues	\$ 315,776	\$ 282,755
Net cost of gas	145,435	126,437
Operating margin	170,341	156,318
Operations and maintenance expense	86,108	83,856
Depreciation and amortization	28,429	27,313
General taxes	12,536	12,099
Operating income	43,268	33,050
Other income (expense), net	(1,380)	103
Income before interest and income taxes	41,888	33,153
Net interest deductions	27,410	24,219
Income tax expense	5,914	3,817
Net income before allocation to the Bank	8,564	5,117
Costs allocated to the Bank, net of tax	2,435	2,469
Contribution to consolidated net income	\$ 10,999	\$ 7,586

Contribution to consolidated net income increased \$3.4 million, or 45 percent, as compared to the six months ended June 1993. This was the result of increased operating margin partially offset by increased operations and maintenance expense, depreciation expense and net interest deductions.

Operating margin increased \$14 million, or nine percent, during the six months ended June 1994. The increase in operating margin is attributed to rate relief, strong customer growth, particularly in Arizona and southern Nevada, and differences in heating demand between periods.

Operations and maintenance expenses increased \$2.3 million, or three percent, reflecting general increases in labor and maintenance costs associated with meeting the needs of the Company's increasing customer base.

Depreciation expense and general taxes increased \$1.6 million, or four percent, resulting from an increase in average gas plant in service of \$78 million, or six percent. This increase reflects capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth within the Company's service area.

Net interest deductions increased \$3.2 million, or 13 percent, over the prior period. The increase is attributable to a \$34 million increase in average long-term debt and a \$50 million increase in average short-term debt outstanding during the period. The increase in debt is attributed primarily to borrowings for construction expenditures, including the draw down of a portion of IDRB funds previously held in trust.



Twelve Months Ended  
 June 30,  
 -----  
 (Thousands of dollars)  
 -----

	1994	1993
	-----	-----
Gas operating revenues	\$ 572,126	\$ 533,013
Net cost of gas	231,288	212,542
	-----	-----
Operating margin	340,838	320,471
Operations and maintenance expense	172,174	166,194
Depreciation and amortization	56,203	53,865
General taxes	24,562	23,041
	-----	-----
Operating income	87,899	77,371
Other income (expense), net	(15,735)	(1,146)
	-----	-----
Income before interest and income taxes	72,164	76,225
Net interest deductions	52,897	47,517
Income tax expense	7,011	9,259
	-----	-----
Net income before allocation to the Bank	12,256	19,449
Costs allocated to the Bank, net of tax	4,907	4,979
	-----	-----
Contribution to consolidated net income	\$ 17,163	\$ 24,428
	=====	=====

Contribution to consolidated net income decreased \$7.3 million, or 30 percent, as compared to the twelve months ended June 1993. Increased operating margin was offset by increased operations and maintenance expense, depreciation expense, and net interest deductions. The recognition of the Arizona pipe replacement program disallowances contributed significantly to the decline in net income.

Operating margin increased \$20 million, or six percent, during the twelve months ended June 1994. This increase was due to continued customer growth in the Company's service areas, combined with rate relief in the Company's central Arizona, California and federal rate jurisdictions.

Operations and maintenance expenses increased \$6 million, or four percent, resulting primarily from general cost increases in labor and materials over the same period ended a year ago. These increases are the direct result of increased costs to provide service to the Company's steadily growing customer base.

Depreciation expense and general taxes increased \$3.9 million, or five percent. In the last twelve months, average gas plant in service increased \$94 million, or eight percent. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate the number of new customers being added to the system.

Other income (expense) increased \$14.6 million during the twelve months ended June 1994, principally the result of regulatory mandates to write off gross plant related to the central and southern Arizona pipe replacement programs. In December 1993, the Company wrote off \$15.9 million of gross plant related to the pipe replacement programs. The impact of these disallowances, net of accumulated depreciation, tax benefits and other related items, was a noncash reduction to net income of \$9.3 million. See Note 17 of the Notes to Consolidated Financial Statements of the 1993 Form 10-K for further discussion. In June 1994, the Company recorded an additional write-off relating to the southern Arizona settlement as discussed in Rates and Regulatory Proceedings--Arizona.

Net interest deductions increased \$5.4 million, or 11 percent, the result of a \$30 million increase in average long-term debt and a \$46 million increase in average short-term debt outstanding during the period. This increase is primarily attributed to borrowings for construction expenditures, including the draw down of a portion of IDR funds previously held in trust.





CALIFORNIA

Effective January 1, 1994, the Company received approval of an attrition allowance to increase annual margin by \$1.5 million in its southern and northern California rate jurisdictions. Pursuant to the California Public Utilities Commission rate case processing plan, the Company filed a general rate application in January 1994 to increase annual margin by \$1.1 million effective January 1995 for its southern and northern California rate jurisdictions.

NEVADA

In March 1993, the Company filed general rate cases with the Public Service Commission of Nevada (PSCN) seeking approval to increase revenues for its southern and northern Nevada rate jurisdictions. The PSCN issued its rate order in October 1993 and ordered the Company to reduce general rates by \$648,000 in southern Nevada and authorized a \$799,000 increase in northern Nevada. The Company filed a motion for reconsideration and rehearing on several issues following the issuance of the rate order. In January 1994, the PSCN granted the rehearing of certain rate case issues. Hearings commenced in July 1994. The resolution of these issues is not expected to have a material effect on the Company's results of operations. A final order is expected in the fourth quarter of 1994.

ARIZONA

In October 1993, the Company filed a rate application with the Arizona Corporation Commission (ACC) seeking approval to increase annual revenues by \$10 million, or 9.3 percent, for its southern Arizona jurisdiction. In July 1994, the ACC approved a settlement agreement of the southern Arizona general rate case. The agreement was reached through negotiations between the Company, the ACC staff, and the Residential Utility Consumer Office. The agreement calls for a \$4.3 million, or 3.9 percent, rate increase which became effective July 1994. The Company also agreed not to file another general rate request for its southern Arizona jurisdiction before November 1996. The settlement established a disallowance formula to be used in future rate cases for expenditures related to defective materials and/or installation. As part of the settlement, the Company agreed to write off \$3.2 million of gross plant in service related to southern Arizona pipe replacement programs in addition to the \$1.3 million disallowance previously written off in December 1993. Cumulatively, the Company has written off \$19.1 million in gross plant related to both central and southern Arizona pipe replacement programs. See Note 17 of the Notes to Consolidated Financial Statements of the 1993 Form 10-K for further discussion of Arizona pipe replacement program disallowances. The impact of these disallowances, net of accumulated depreciation, tax benefits and other related items, was a noncash reduction to net income of \$9.6 million, or \$0.45 per share, \$9.3 million of which was recognized in December 1993. The Company believes this settlement effectively resolves all financial issues associated with currently challenged Arizona pipe replacement programs, that it has adequately provided for future disallowances and does not anticipate further material effects on results of operations as a result of gross plant disallowances related to these pipe replacement programs.

FERC

In October 1992, Paiute filed a general rate case with the Federal Energy Regulatory Commission (FERC) requesting approval to increase revenues by \$6.8 million annually. Paiute is seeking recovery of increased costs associated with its capacity expansion project that was placed into service in February 1993. Interim rates reflecting the increased revenues became effective in April 1993 and are subject to refund until a final order is issued. A final decision from the FERC is expected in late 1994.



## FINANCIAL SERVICES SEGMENT

PriMerit Bank (the Bank) is a federally chartered stock savings bank conducting business through branch offices in Nevada. The Bank's deposit accounts are insured to the maximum extent permitted by law by the Federal Deposit Insurance Corporation (FDIC) through the Savings Association Insurance Fund (SAIF). The Bank is regulated by the Office of Thrift Supervision (OTS) and the FDIC, and is a member of the Federal Home Loan Bank (FHLB) system.

The Bank's principal business is to attract deposits from the general public and make loans secured by real estate and other collateral to enable borrowers to purchase, refinance, construct or improve such property. Revenues are derived from interest on real estate loans and debt securities and, to a lesser extent, from interest on nonmortgage loans, gains on sales of loans and debt securities, and fees received in connection with loans and deposits. The Bank's major expense is the interest paid on savings deposits and borrowings.

## CAPITAL RESOURCES AND LIQUIDITY

In accordance with OTS regulations, the Bank is required to maintain an average daily balance of liquid assets equal to at least five percent of its liquidity base (savings deposits and borrowings due in one year or less) during the preceding calendar month. The liquidity ratio was 12 percent for the month of June 1994. The Bank's ratio is substantially higher than the requirement due to an increased level of transaction accounts. Management considers the Bank's liquidity position to be adequate. At June 30, 1994, the Bank maintained in excess of \$295 million of unencumbered assets which could be borrowed against or sold to increase liquidity levels.

The Bank's deposits decreased \$7.4 million during the quarter while increasing \$19.4 million for the year. The decrease in the second quarter of 1994 is principally due to a \$12.6 million decrease in transaction accounts, partially offset by a \$5.2 million increase in longer term certificate of deposit accounts. The net increase for the first half of 1994 is due primarily to a \$30.3 million increase in money market transaction accounts and an \$8.2 million increase in certificates of deposit partially offset by a decline of \$21.1 million in other transaction accounts.

## FINANCIAL AND REGULATORY CAPITAL

The Bank exceeded all three minimum capital requirements--tangible, core and risk-based--applicable at June 30, 1994 and all three fully phased-in capital requirements which will be applicable at July 1, 1996 under current regulations. During the first six months of 1994, all three of the Bank's regulatory capital ratios declined as a result of the \$8.8 million decline in the unrealized gain, net of tax, on debt securities available for sale offset partially by the Bank's first half net income of \$4.4 million. The Bank's core and risk-based capital ratios also declined as a result of the deduction from capital of an additional \$5.5 million of supervisory goodwill at June 30, 1994. The OTS requires the phase-out of supervisory goodwill includable in capital by January 1, 1995. The includable supervisory goodwill was 0.375 percent of total assets on January 1, 1994 and will reach zero percent on January 1, 1995. The Bank continues to be classified as "well capitalized" under the FDIC Improvement Act of 1991 (FDICIA).



A reconciliation of stockholder's equity to the three regulatory capital standards and the Bank's resulting ratios are set forth in the table below (thousands of dollars):

	June 30, 1994			December 31, 1993		
	Tangible	Core	Risk-based	Tangible	Core	Risk-based
Stockholder's equity	\$ 172,627	\$ 172,627	\$ 172,627	\$ 176,943	\$ 176,943	\$ 176,943
Capital adjustments:						
Nonsupervisory goodwill	(41,420)	(41,420)	(41,420)	(42,464)	(42,464)	(42,464)
Supervisory goodwill	(26,150)	(19,905)	(19,905)	(27,037)	(14,422)	(14,422)
Real estate investments	(49)	(49)	(186)	--	--	(478)
General loan loss reserves	--	--	10,892	--	--	11,008
Regulatory capital	105,008	111,253	122,008	107,442	120,057	130,587
Minimum required capital	24,982	49,964	69,265	25,229	50,459	70,031
Excess	\$ 80,026	\$ 61,289	\$ 52,743	\$ 82,213	\$ 69,598	\$ 60,556
Regulatory capital ratio	6.31%	6.68%	14.09%	6.39%	7.14%	14.92%
Minimum required ratio	1.50	3.00	8.00	1.50	3.00	8.00
Excess	4.81%	3.68%	6.09%	4.89%	4.14%	6.92%
Asset base	\$ 1,665,454	\$ 1,665,454	\$ 865,818	\$ 1,681,952	\$ 1,681,952	\$ 875,387

At June 30, 1994 under fully phased-in capital rules applicable at July 1, 1996, the Bank would have exceeded its fully phased-in tangible, core and risk-based capital requirements by \$79.2 million, \$54.2 million and \$45.2 million, respectively.

The OTS issued a regulation which adds a component to an institution's risk-based capital calculation effective in the third quarter of 1994. The regulation will require a reduction of an institution's risk-based capital by 50 percent of the decline in the institution's net portfolio value (NPV) exceeding two percent of assets under a hypothetical 200 basis point increase or decrease in market interest rates. Based upon OTS measurement of the Bank's interest rate risk (IRR) exposure at December 31, 1993 and March 31, 1994, and management's estimate of its IRR exposure at June 30, 1994, the Bank would not be subjected to a reduction of its risk-based capital as a result of the implementation of this regulation. The FDIC and the Office of the Comptroller of the Currency have proposed similar regulations which may result in a more stringent capital requirement for IRR than the current OTS regulations. OTS regulations can be no less stringent than those applicable to national banks. Therefore, the impact of this proposed regulation on the Bank is unknown at this time.

#### RESULTS OF FINANCIAL SERVICES OPERATIONS

##### Quarterly Analysis

The Bank recorded net income of \$2.2 million for the three months ended June 30, 1994 compared to a net loss of \$4.7 million for the same period in 1993. After-tax components of the Bank's 1994 second quarter net income were comprised of \$3 million from core banking operations and \$391,000 of real estate income, offset partially by \$965,000 of goodwill amortization expense and a \$238,000 loss from credit card charge-offs. After-tax components of the Bank's 1993 second quarter net loss were comprised of income of \$2.2 million from core banking operations, offset by a \$5.8 million loss as the result of the write-off of goodwill associated with the sale of the Bank's Arizona-based deposit liabilities, a \$117,000 loss from real estate operations, and \$1 million in goodwill amortization.



Income from real estate operations was \$595,000 for the second quarter of 1994 compared to a net loss of \$206,000 for the second quarter of 1993. The increase was due principally to gains on the sale of a real estate development project in Nevada and a former branch facility in Arizona.

Net gains on secondary marketing hedging activities result from pair-offs of forward sale commitments used to hedge secondary marketing activities occurring during the second quarter of 1994. A net loss from similar activity was recorded for the same period in 1993.

General and administrative expenses decreased by \$1.4 million, or 12 percent, in the second quarter of 1994 compared to the same period in 1993, due primarily to the effects of the sale of the Arizona-based deposit liabilities during the third quarter of 1993 and continued expense control.

The following table sets forth information with respect to interest rate spread for the periods shown (thousands of dollars):

	Three Months Ended June 30,					
	1994			1993		
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Interest-earning assets:						
Cash equivalents	\$ 50,587	\$ 512	4.05%	\$ 15,099	\$ 134	3.55%
Debt securities held to maturity	66,553	1,061	6.38	362,155	6,890	7.61
Debt securities available for sale	560,282	8,380	5.98	782,603	9,795	5.01
Loans receivable, net	883,494	18,982	8.59	771,882	17,987	9.32
FHLB stock	16,795	189	4.50	16,346	170	4.16
Total interest-earning assets	\$ 1,577,711	29,124	7.38	\$ 1,948,085	34,976	7.18
Interest-bearing liabilities:						
Deposits	\$ 1,227,626	10,690	3.49	\$ 1,604,657	16,491	4.11
Securities sold under agreements to repurchase	213,925	2,466	4.62	294,886	3,256	4.42
Advances from FHLB	71,000	832	4.70	14,222	315	8.86
Notes payable	8,200	160	7.83	18,510	384	8.30
Unsecured senior notes	--	--	--	25,000	470	7.52
Total interest-bearing liabilities	\$ 1,520,751	14,148	3.73	\$ 1,957,275	20,916	4.27
Cost of hedging activities		56	.01		--	--
Cost of funds		14,204	3.74		20,916	4.27
Capitalized and transferred interest		(4)	--		(10)	--
Net interest income		\$ 14,924	3.64%		\$ 14,070	2.91%
Net yield on interest- earning assets			3.78%			2.89%

During the second quarter of 1994, average interest-earning assets declined by approximately \$370 million and average interest-bearing liabilities declined approximately \$437 million compared to 1993. The decreases resulted primarily from the sale of \$321 million of higher costing Arizona-based deposit liabilities funded by the sale of \$334 million of lower yielding MBS in the third quarter of 1993. Despite a decrease in average interest-earning assets, net interest income increased \$854,000 or six percent and net interest margin increased from 2.89 percent to 3.78 percent.





Net income of \$4.4 million was recorded for the first half of 1994 compared to a net loss of \$1.1 million (\$4.1 million net loss before cumulative effect of accounting change) for the six months ended June 30, 1993. After-tax components of the first half of 1994's net income were comprised of \$5.4 million from core banking operations, a gain of \$861,000 from the Bank's credit card portfolio sale net of credit card charge-offs, and a \$72,000 gain from real estate operations. Income was partially offset by \$1.9 million of goodwill amortization. After-tax components of the Bank's 1993 first half net loss were comprised of income of \$3.9 million from core banking operations and \$3 million from the cumulative effect of the accounting change for taxes, offset by the write-off of goodwill of \$5.8 million as the result of the Bank's sale of its Arizona-based deposit liabilities in 1993, goodwill amortization of \$2 million and a \$224,000 loss on real estate operations.

Income from the Bank's real estate operations increased \$479,000 in 1994 as a result of the sale of a real estate development project in Nevada and the sale of a former branch facility in Arizona.

General and administrative expenses declined \$2.4 million or 10 percent for the first six months of 1994 versus the same period in 1993 due to declines in overall operating expenses as a result of the 1993 sale of the Bank's Arizona-based deposit liabilities.

The following table sets forth information with respect to interest rate spread for the periods shown (thousands of dollars):

	Six Months Ended June 30,					
	1994			1993		
	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Interest-earning assets:						
Cash equivalents	\$ 60,122	\$ 1,065	3.54%	\$ 30,943	\$ 527	3.41%
Debt securities held to maturity	67,165	2,162	6.44	768,532	24,059	6.26
Debt securities available for sale	574,133	16,804	5.85	391,302	9,795	5.01
Loans receivable, net	869,339	36,797	8.47	762,604	36,338	9.53
FHLB stock	16,708	341	4.08	16,530	254	3.07
Total interest-earning assets	\$ 1,587,467	57,169	7.20	\$ 1,969,911	70,973	7.21
Interest-bearing liabilities:						
Deposits	\$ 1,217,325	21,023	3.48	\$ 1,603,352	33,766	4.25
Securities sold under agreements to repurchase	235,236	5,176	4.44	326,057	7,036	4.35
Advances from FHLB	71,000	1,654	4.70	15,111	664	8.86
Notes payable	8,233	314	7.69	18,575	777	8.44
Unsecured senior notes	--	--	--	25,000	940	7.58
Total interest-bearing liabilities	\$ 1,531,794	28,167	3.71	\$ 1,988,095	43,183	4.38
Cost of hedging activities		93	.01		--	--
Cost of funds		28,260	3.72		43,183	4.38
Capitalized and transferred interest		(11)	--		(37)	--
Net interest income		\$ 28,920	3.48%		\$ 27,827	2.83%
Net yield on interest-earning assets			3.64%			2.83%

During the first half of 1994, average interest-earning assets decreased \$382 million and average interest-bearing liabilities decreased \$456 million. The decreases resulted from the sale of the Bank's higher costing Arizona-based



deposit liabilities in the third quarter of 1993 and sales and principal repayments of loans and lower yielding debt securities exceeding originations and purchases. Despite the decline in average interest earning assets, net interest income increased \$1.1 million.

#### Twelve Month Analysis

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The Bank recorded net income of \$12 million for the twelve months ended June 30, 1994 compared to a loss of \$2.1 million for the twelve months ended June 30, 1993. After-tax components of the Bank's net income for the twelve months ended June 30, 1994 were comprised of \$9.3 million from core banking operations, a gain of \$4.8 million from the sale of debt securities used to fund the sale of the Arizona deposit liabilities, a gain of \$861,000 from the sale of the Bank's credit card portfolio net of credit card charge-offs, a \$1.2 million gain from a legal settlement and a change in tax rate, offset partially by a loss of \$281,000 from real estate operations, and \$3.9 million of goodwill amortization expense. After-tax components of the Bank's net loss for the twelve months ended June 30, 1993 were comprised of income of \$6.9 million from core banking operations, a \$3 million gain as the result of the cumulative effect of a change in method of accounting for income taxes, and gains of \$1.3 million and \$544,000 on the sale of servicing rights and balance sheet restructuring, respectively; offset by a \$4 million loss from real estate operations, a \$5.8 million loss on the sale of the Arizona-based deposit liabilities, and \$4.1 million of goodwill amortization expense.

Net interest income increased \$5.2 million due to the following factors:

- (i) Total interest income decreased \$25.7 million, or 18 percent, due to a decrease in interest income on debt securities of \$26.5 million, or 38 percent, caused by a \$416 million decrease in the average balance and a 14 basis point decrease in the average yield; and a decrease in interest income on loans of \$277,000 due to a 94 basis point decrease in the average yield, partially offset by an increase of \$78.7 million in the average portfolio balance. In May 1993, \$638 million of mortgage-backed securities (MBS) were designated as MBS held for sale in connection with the sale of the Arizona-based deposit liabilities and in anticipation of implementation of SFAS No. 115, thus causing changes in the average balances of the available for sale and held to maturity categories. The net decrease in total MBS was due primarily to \$334 million of MBS sold during August of 1993 to fund the transfer of the Arizona-based deposit liabilities. In addition, interest income from cash equivalents and dividends from FHLB stock increased \$1.1 million, or 74 percent, due to an increase \$23.2 million in the average portfolio balance and an increase of 56 basis points in the yield.
- (ii) Total interest expense decreased \$30.9 million, or 34 percent, due to a decrease in interest on deposits of \$27.7 million, or 38 percent, caused by a decrease of 87 basis points in the average interest rate, and a decrease of \$377 million in the average balance outstanding as a result of the sale of the Arizona-based deposit liabilities; and, a decrease in interest on borrowings of \$3.4 million, or 18 percent, due to a 104 basis point decrease in the average borrowing rate, partially offset by an increase of \$1.6 million in the average balance outstanding. Capitalized and transferred interest decreased \$197,000 due to the decline in the real estate portfolio.

Net loss from real estate operations was \$431,000 for the twelve months ended June 30, 1994 compared to a net loss of \$6.1 million for the same period in 1993. The loss for the twelve-month period ended June 30, 1993 was primarily attributable to the establishment of \$6.5 million in provisions for estimated losses on the Bank's real estate investments, compared to provisions of \$602,000 for the current twelve-month period. The provisions for the twelve-month period ended June 30, 1993 were primarily the result of the Bank's valuation allowances and charge-offs of real estate required as a result of the slow sales activity and the decline in real estate values in the California market. Similar levels of provisions and charge-offs did not occur in the twelve months ended June 30, 1994 due to a substantially lower portfolio balance.



Net gains on the sale of loans decreased \$2.5 million for the twelve months ended June 30, 1994 compared to the same period ended June 30, 1993, principally due to a greater volume of loan sales during 1993 as part of the Bank's balance sheet restructuring.

Loss on the sale of the Bank's Arizona-based deposit liabilities was \$6.2 million for the twelve months ended June 30, 1993. Net gains on the sale of MBS for the twelve months ended June 30, 1994 were \$7.6 million. The MBS were sold primarily to fund the sale of the Arizona-based deposit liabilities to World Savings and Loan Association. Net gains on the sale of MBS for the twelve months ended June 30, 1993 were \$2.5 million. This gain was primarily the result of the Bank's balance sheet restructuring.

Loan related fees decreased \$523,000 due to a lower level of loans serviced for others as a result of the sale of mortgage loan servicing rights and payoffs within the loan servicing portfolio. Deposit related fees and other income increased by \$1.1 million due to a higher deposit fee structure and the increased level of transaction accounts subject to fee assessment.

General and administrative expenses declined \$2.3 million, or five percent, for the twelve months ended June 30, 1994 compared to the same period in 1993 due to the sale of the Arizona-based deposit liabilities and increased efficiencies.

#### ASSET QUALITY

**NONPERFORMING ASSETS.** Nonperforming assets are comprised of nonaccrual assets, restructured loans and real estate acquired through foreclosure. Nonaccrual assets are those on which management believes the timely collection of interest is doubtful. Loans are transferred to nonaccrual status when payments of interest or principal are 90 days past due or if, in management's opinion, the accrual of interest should be ceased sooner. There were no loans on accrual status which were over 90 days delinquent or past maturity as of June 30, 1994. Interest income for loans on nonaccrual status is generally recorded on a cash basis.

The following table summarizes nonperforming assets as of the dates indicated (thousands of dollars):

	June 30, 1994	December 31, 1993
	-----	-----
Nonaccrual loans past due 90 days or more:		
Mortgage loans:		
Construction and land	\$ 1,711	\$ 1,233
Permanent single-family residences	7,580	6,636
Other mortgage loans	6,693	6,728
	-----	-----
	15,984	14,597
Nonmortgage loans	352	184
Restructured loans	16,597	2,842
	-----	-----
Total nonperforming loans	32,933	17,623
Real estate acquired through foreclosure	8,001	9,707
	-----	-----
Total nonperforming assets	\$ 40,934	\$ 27,330
	=====	=====
Allowance for estimated credit losses	\$ 16,443	\$ 16,251
	=====	=====
Allowance for estimated credit losses as a percentage of nonperforming loans	49.93%	92.21%
	=====	=====
Allowance for estimated credit losses as a percentage of nonperforming assets	40.17%	59.46%
	=====	=====

The increase in restructured loans of \$13.8 million is a result of single family loan modifications made to borrowers with earthquake-related damage in California. Federal agencies encouraged financial institutions to modify



loan terms for certain borrowers who were affected by the earthquake which occurred in January of this year. The terms of these modifications were generally three- to six-month payment extensions with no negative credit reporting regarding the borrower. These loans are on a nonaccrual basis during the extension period.

The decrease in real estate acquired through foreclosure of \$1.7 million is due primarily to pay-downs of three single-family residential construction loans in California for \$1.1 million and \$537,000 of single-family residential loan payoffs and sales (primarily in Arizona).

CLASSIFIED ASSETS. OTS regulations require the Bank to classify certain assets and establish prudent valuation allowances. Classified assets are categorized as "substandard," "doubtful" and "loss." In addition, the Bank can designate an asset as "special mention."

The following table sets forth the amounts of the Bank's classified assets and ratio of classified assets to total assets, net of allowances and charge-offs, as of the dates indicated (thousands of dollars):

	June 30, 1994		December 31, 1993	
	Balance	% of Total Assets	Balance	% of Total Assets
Substandard assets:				
Loans:				
Single family residential	\$ 8,276	0.48%	\$ 7,339	0.42%
Consumer	352	0.02	134	0.01
Commercial and multi-family mortgage	22,133	1.28	25,522	1.47
Construction and land	4,860	0.28	4,581	0.26
Other	43	--	310	0.02
Foreclosed real estate (net)	8,001	0.46	9,707	0.55
Real estate held for investment	1,226	0.07	2,166	0.12
Investments	26,004	1.50	29,509	1.68
Doubtful assets	--	--	--	--
Loss assets	--	--	--	--
Total	\$ 70,895	4.09%	\$ 79,268	4.53%

Classified assets decreased \$8.4 million from December 31, 1993 to June 30, 1994 primarily as a result of the upgrade of a \$2.1 million shopping center loan, repayments of \$3.5 million of investments, a decrease of \$940,000 in real estate held for investment due to sales, and a \$1.7 million decrease in foreclosed real estate. The investment security classified as substandard represents a privately issued MBS collateralized by apartments, office buildings, town homes, shopping centers and day care centers located in various states along the southeastern seaboard and is further supported by a credit enhancement feature. The single A credit rating of this security was withdrawn in the first half of 1993, due to a large number of delinquencies underlying the security. Based on extensive credit reviews, the Bank determined that only a portion of the underlying loans met the criteria for substandard classification. However, the entire security is classified as substandard because the OTS does not have a policy for the "split rating" of a security. The security may be upgraded once improvement in the level of delinquencies in the loans underlying the security occurs.

Substandard loans decreased \$2.2 million due primarily to the upgrade of a \$2.1 million shopping center loan in Nevada. The largest substandard loan at June 30, 1994 was an \$8.3 million multi-family real estate loan in Nevada. The Bank had five additional substandard loans at June 30, 1994 in excess of \$1 million: one multi-family real estate loan in Nevada, two hotel loans in Nevada, one single-family residential construction loan in California, and one outstanding single-family residential commitment in California.

The largest foreclosed real estate asset held by the Bank at June 30, 1994 was a \$1.7 million single-family construction real estate parcel in California. The Bank also owned two parcels of foreclosed real estate at June 30, 1994 with book values in excess of \$1 million: one multi-family property located in Nevada, and one land parcel located in California.





The Bank's largest investment in real estate classified as substandard at June 30, 1994, was a former bank branch in Arizona with a current book value of \$891,000. The Bank's remaining real estate development projects classified as substandard have current book values of \$195,000 and \$140,000.

Special mention assets increased from \$27.6 million at December 31, 1993 to \$50.9 million at June 30, 1994, primarily due to the addition of \$13.9 million in California single family residential loans with earthquake related problems which were modified and a Nevada apartment loan for \$9 million. The geographic concentration of the Bank's classified assets at June 30, 1994 was 39 percent in Nevada, 21 percent in California, 3 percent in Arizona, and 37 percent in the southeastern seaboard states.

It is the Bank's practice to charge off all assets or portions thereof which it considers to be "loss." As a result, none of the Bank's assets, net of charge-offs, were classified as "loss" at June 30, 1994.

The following tables set forth the Bank's charge-off experience for loans receivable and real estate acquired through foreclosure by loan type (thousands of dollars):

	Charge-Offs	Recoveries	Net Charge-Offs
	-----	-----	-----
Six Months Ended June 30, 1994:			
-----			
Single-family residential	\$ 913	\$ (368)	\$ 545
Commercial and multi-family mortgage	602	(99)	503
Construction/land	903	(11)	892
Nonmortgage	1,934	(357)	1,577
	-----	-----	-----
Total net charge-offs	\$ 4,352	\$ (835)	\$ 3,517
	=====	=====	=====
Six Months Ended June 30, 1993:			
-----			
Single-family residential	\$ 686	\$ (105)	\$ 581
Commercial and multi-family mortgage	771	(89)	682
Construction/land	816	(177)	639
Nonmortgage	1,240	(353)	887
	-----	-----	-----
Total net charge-offs	\$ 3,513	\$ (724)	\$ 2,789
	=====	=====	=====

PROVISIONS AND ALLOWANCES FOR LOAN AND REAL ESTATE LOSSES. On a regular basis, management evaluates the adequacy of the allowances for estimated losses on loans, investments, and real estate and establishes additions to the allowances through provisions to expense. The Bank utilizes a comprehensive internal asset review system and general valuation allowance methodology. General valuation allowances are established for each of the loan, investment, and real estate portfolios for unforeseen losses. Factors taken into account in determining the adequacy of allowances include review of existing risks in the portfolios, prevailing and anticipated economic conditions, actual loss experience and delinquencies. Regular reviews of the quality of the Bank's loan, investment, and real estate portfolios by the Risk Management Committee and examinations by regulatory authorities are performed periodically.

Charge-offs are recorded on particular assets when it is determined that the fair or net realizable value of an asset is below the carrying value. When a loan is foreclosed, the asset is written down to fair value based on a current appraisal of the subject property.



Activity in the allowances for losses on loans and investments in real estate is summarized as follows (thousands of dollars):

	Total Loans and Foreclosed Real Estate	Investments in Real Estate	Total
Balance at March 31, 1994	\$ 15,563	\$ 541	\$ 16,104
Provisions for estimated losses	2,275	(367)	1,908
Charge-offs, net of recoveries	(1,395)	311	(1,084)
Balance at June 30, 1994	\$ 16,443	\$ 485	\$ 16,928
Balance at December 31, 1993	\$ 16,251	\$ 935	\$ 17,186
Provisions for estimated losses	3,709	47	3,756
Charge-offs, net of recoveries	(3,517)	(497)	(4,014)
Balance at June 30, 1994	\$ 16,443	\$ 485	\$ 16,928
Balance at March 31, 1993	\$ 17,022	\$ 1,070	\$ 18,092
Provisions for estimated losses	1,180	217	1,397
Charge-offs, net of recoveries	(1,460)	(447)	(1,907)
Balance at June 30, 1993	\$ 16,742	\$ 840	\$ 17,582
Balance at December 31, 1992	\$ 17,228	\$ 1,463	\$ 18,691
Provisions for estimated losses	2,303	455	2,758
Charge-offs, net of recoveries	(2,789)	(1,078)	(3,867)
Balance at June 30, 1993	\$ 16,742	\$ 840	\$ 17,582

The Bank recorded net loan charge-offs of \$3.5 million and net real estate write-downs of \$497,000 during the first half of 1994 as a result of the analysis of the adequacy of its allowances for estimated credit and real estate losses. For the second quarter of 1994, the Bank recorded net loan charge-offs of \$1.4 million and net real estate recoveries of \$311,000. The loan and foreclosed real estate charge-offs were primarily attributable to the partial charge-off of an apartment complex loan in Nevada, two single-family residential construction properties located in California and credit card and other consumer loan charge-offs. The Bank's quarterly analysis required no significant change in the allowance for estimated credit losses at June 30, 1994 from December 31, 1993.

Included in net real estate write-downs of \$497,000 for 1994 were \$519,000 related to the Bank's two previous branches in Arizona which were subsequently transferred to investment in real estate from premises and equipment in conjunction with the sale of the Arizona-based deposit liabilities in the second quarter of 1993. Through a bulk sale, the Bank recovered \$280,000 on a real estate project in Nevada during the second quarter of 1994, which was previously written down.



Items 1-3 None

Item 4 Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on May 12, 1994. The eleven directors nominated were reelected by shareholders. Other matters voted upon and the results of the voting were as follows:

- (1) The proposed amendment to the Company's Restated Articles of Incorporation to provide for a classified Board of Directors having staggered three-year terms was not approved. Shareholders voted 8,461,232 shares in favor, 5,245,700 opposed, and 4,079,144 abstentions and broker nonvotes. An amendment to the Articles of Incorporation requires the affirmative vote of at least 50 percent of the outstanding shares of the Company's common stock.
- (2) The Management Incentive Plan for key management employees of the Company was approved. Shareholders voted 14,595,301 shares in favor, 2,699,536 opposed, and 491,239 abstentions.
- (3) The selection of Arthur Andersen & Co. to audit the financial statements of the Company and its subsidiaries for 1994 was approved. Shareholders voted 17,122,899 shares in favor, 423,638 opposed, and 239,539 abstentions.

Item 5 None

Item 6 Exhibits and Reports on Form 8-K

- (a) The following documents are filed as part of this report on Form 10-Q:
  - Exhibit 3.ii - Amended Bylaws of Southwest Gas Corporation
  - Exhibit 10.01 - Management Incentive Plan, amended and restated May 10, 1994
  - Exhibit 10.02 - Executive Deferral Plan, amended and restated May 10, 1994
  - Exhibit 10.03 - Supplemental Retirement Plan, amended and restated effective May 10, 1994
- (b) Reports on Form 8-K - None



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 11, 1994

/s/ Edward A. Janov

-----  
Edward A. Janov  
Controller and Chief Accounting Officer

BYLAWS  
OF  
SOUTHWEST GAS CORPORATION  
(As amended 5/12/94)





BYLAWS  
OF  
SOUTHWEST GAS CORPORATION

ARTICLE I

Section 1. Principal Office  
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The principal office for the transaction of the business of the corporation is hereby fixed and located at 5241 Spring Mountain Road, in the City of Las Vegas, County of Clark, State of Nevada.

Section 2. Other Offices  
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Branch or subordinate offices may at any time be established by the Board of Directors at any place or places where the corporation is qualified to do business.

Section 3. Terminology  
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All personal pronouns used herein are employed in a generic sense and are intended and deemed to be neutral in gender.

ARTICLE II

MEETING OF SHAREHOLDERS

Section 1. Regular Meeting  
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Commencing in May, 1988, the regular annual meeting of the shareholders shall be held at the principal office of the corporation, or at such other place within or without the State of California as the officers of the corporation may deem convenient and appropriate, at 10 a.m. on the second Thursday of May of each year, if not a legal holiday, and if a legal holiday, then at 10 a.m. on the next succeeding business day, for the purpose of electing a Board of Directors and transacting such other business as properly may come before the meeting; provided, however, that the Board of Directors may, by resolution, establish a different date not more than 120 days thereafter if, in its sole discretion, it deems such postponement appropriate.

Section 2. Special Meetings  
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Except in those instances where a particular manner of calling a meeting of the shareholders is prescribed by law or elsewhere in these Bylaws, a special meeting of the shareholders may be called at any time by the Chief Executive



Officer or other officers acting for him or by the Board of Directors, or by the holders of not less than one-third of the voting shares then issued and outstanding. Each call for a special meeting of the shareholders shall state the time, place, and the purpose of such meeting; if made by the Board of Directors, it shall be by resolution duly adopted by a majority vote and entered in the minutes; if made by an authorized officer or by the shareholders, it shall be in writing and signed by the person or persons making the same, and unless the office of Secretary be vacant, delivered to the Secretary. No business shall be transacted at a special meeting other than as is stated in the call and the notice based thereon.

Section 3. Notice of Regular and Special Meetings  
----- of the Shareholders  
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Notice of each regular and special meeting of the shareholders of the corporation shall be given by mailing to each shareholder a notice of the time, place and purpose of such meeting addressed to him at his address as it appears upon the books of the corporation. Each such notice shall be deposited in the United States Mail with the postage thereon prepaid at least ten days prior to the time fixed for such meeting. If the address of any such shareholder does not appear on the books of the corporation and his post office address is unknown to the person mailing such notices, the notice shall be addressed to him at the principal office of the corporation.

Section 4. Quorum  
-----

At any meeting of the shareholders, the presence in person or by proxy of the holders of a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business, except when it is otherwise provided by law. Any regular or special meeting of the shareholders may adjourn from day to day or from time to time if, for any reason, there are not present in person or by proxy the holders of a majority of the shares entitled to vote at said meeting. Such adjournment and the reasons therefor shall be recorded in the minutes of the proceedings.

Section 5. Waiver of Notice  
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When all the shareholders of the corporation are present at any meeting, or when the shareholders not represented thereat give their written consent to the holding thereof at the time and place the meeting is held, and such written consent is made a part of the records of such meeting, the proceedings had at such meeting are valid, irrespective of the manner in which the meeting is called or the place where it is held.



ARTICLE III

BOARD OF DIRECTORS

Section 1. Number--Quorum

The business of the corporation shall be managed by a Board of Directors, whose number shall be not fewer than eleven (11) nor greater than fourteen (14), as the Board of Directors or the shareholders by amendment of these Bylaws may establish, provided, however, that a reduction in the authorized number of directors shall not remove any director prior to the expiration of his term of office, and provided further that the shareholders may, pursuant to law, establish a different and definite number of directors or different maximum and minimum numbers of directors by amendment of the Articles of Incorporation or by a duly adopted amendment to these Bylaws. A majority of the prescribed number of directors shall be necessary to constitute a quorum for the transaction of business. At a meeting at which a quorum is present, every decision or act of a majority of the directors present made or done when duly assembled shall be valid as the act of the Board of Directors, provided that a minority of the directors, in the absence of a quorum, may adjourn from day to day but may transact no business.

Section 2. Exact Number of Directors

The number of directors of the corporation is hereby established, pursuant to the provisions of Section 1 of this Article III, as eleven (11).

Section 3. Election and Term of Office

The directors shall be elected at each annual meeting of shareholders, but if any such annual meeting is not held, or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. All directors shall hold office until their respective successors are elected and qualified.

Section 4. Vacancies

Vacancies in the Board of Directors may be filled by a majority of the remaining directors, though they be less than a quorum, and each director so elected shall hold office until his successor is qualified following the election at the next annual meeting of the shareholders or at any special meeting of shareholders duly called for that purpose prior to such annual meeting. A vacancy shall be deemed to exist in case the shareholders (or the Board of Directors, within the provisions of Section 1 of this Article III) shall increase the authorized number of directors, but shall fail, for a period of thirty days from the effective date of such increase, to elect the



additional directors so provided for, or in case the shareholders fail at any time to elect the full number of authorized directors. When one or more of the directors shall give notice to the Board of Directors of his or their resignation from said Board, effective at a future date, the Board of Directors shall have the power to fill such vacancy or vacancies to take effect when such resignation or resignations become effective. Each director so appointed shall hold office during the remainder of the term of office of the resigning director or directors or until their successors are appointed and qualify.

#### Section 5. First Meeting of Directors

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Immediately following each annual meeting of shareholders, the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers, and the transaction of other business. Notice of such meeting is hereby dispensed with.

#### Section 6. Regular Meetings

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Commencing in 1991, the time for other regular meetings of the Board of Directors, when held, shall be 8 a.m. on the third Tuesday of January, July, September and November, the first Tuesday of March and the second Wednesday of May, unless a different schedule is established by a resolution of the Board. If any regular meeting date shall fall on a legal holiday, then the regular meeting date shall be the business day next following.

#### Section 7. Special Meetings

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A special meeting of the Board of Directors shall be held whenever called by the Chief Executive Officer or other officer acting for him, or by three directors. Any and all business may be transacted at a special meeting. Each call for a special meeting shall be in writing, signed by the person or persons making the same, addressed and delivered to the Secretary, and shall state the time and place of such meeting.

#### Section 8. Notice of Regular and Special Meetings of the Directors

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No notice shall be required to be given of any regular meeting of the Board of Directors, but each director shall take notice thereof. Notice of each special meeting of the Board of Directors shall be given to each of the directors by mailing to each of them a copy of such notice at least five days prior to the time affixed for such meeting to the address of such director as shown on the books of the corporation. If his address does not appear on the books of the corporation, then such notice shall be addressed to him at the principal office of the corporation.





Section 9. Waiver of Notice  
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When all the directors of the corporation are present at any meeting of the Board of Directors, however called or noticed, and sign a written consent thereto on the record of such meeting, or if the majority of the directors are present, and if those not present sign in writing a waiver of notice of such meeting, whether prior to or after the holding of such meeting, which waiver shall be filed with the Secretary of the corporation, the transactions of such meeting are as valid as if had at a meeting regularly called and noticed.

Section 10. Action by Unanimous Consent of Directors  
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Any action required or permitted to be taken by the Board of Directors may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board, and such action by written consent shall have the same force and effect as if approved or taken at a regular meeting duly held. Any certificate or other document which relates to action so taken shall state that the action was taken by unanimous written consent of the Board of Directors without a meeting, and that these Bylaws authorize the directors to so act.

Section 11. Telephonic Participation in Meetings  
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Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Participation in a meeting pursuant to this section shall constitute presence in person at such meeting.

## ARTICLE IV

## POWERS OF DIRECTORS

Section 1. The directors shall have power:  
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1. To call special meetings of the shareholders when they deem it necessary, and they shall call a meeting at any time upon the written request of shareholders holding one-third of all the voting shares:
2. To appoint and remove at pleasure all officers and agents of the corporation, prescribe their duties, fix their compensation, and require from them as necessary security for faithful service;



3. To create and appoint committees, offices, officers and agents of the corporation, and to prescribe and from time to time change their duties and compensation, but no committee shall be created and no member appointed thereto except upon approval of a majority of the whole Board of Directors; and

4. To conduct, manage, and control the affairs and business of the corporation and to make rules and regulations not inconsistent with the laws of the State of California, or the Bylaws of the corporation, for the guidance of the officers and management of the affairs of the corporation.

ARTICLE V

DUTIES OF DIRECTORS

Section 1. It shall be the duty of the directors:

- - - - -

1. To cause to be kept a complete record of all their minutes and acts, and of the proceedings of the shareholders, and present a full statement at the regular annual meeting of the shareholders, showing in detail the assets and liabilities of the corporation, and generally the condition of its affairs. A similar statement shall be presented at any other meeting of the shareholders when theretofore required by persons holding at least one-half of the voting shares of the corporation;

2. To declare dividends out of the profits arising from the conduct of the business, whenever such profits shall, in the opinion of the directors, warrant the same;

3. To oversee the actions of all officers and agents of the corporation, see that their duties are properly performed; and

4. To cause to be issued to the shareholders, in proportion to their several interests, certificates of stock.

ARTICLE VI

OFFICERS

Section 1. The officers shall include a Chairman of the Board of Directors, a Chief Executive Officer, who may be designated Chairman, a President, a Secretary, a Treasurer, a Controller, and may include one or more Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Vice Presidents, Assistant Secretaries, and Assistant Treasurers. All such officers shall be elected by and hold office at the pleasure of the Board of Directors, provided that the Chief Executive Officer shall have authority to dismiss any other officer. Any director shall be eligible to be the Chairman of the Board of Directors and any two or more of such offices may be held by the same



person, except that the Chief Executive Officer or President may not also hold the office of Secretary. Any officer may exercise any of the powers of any other officer in the manner specified in these Bylaws, as specified from time to time by the Board of Directors, and/or as specified from time to time by the Chief Executive Officer or senior officer acting in his or her absence or incapacity, and any such acting officer shall perform such duties as may be assigned to him or her.

ARTICLE VII

FEES AND COMPENSATION

Section 1. Directors shall be reimbursed for their expenses, and shall be compensated for their services as directors in such amounts as the Board may fix by resolution. Nothing herein contained shall be construed to preclude any director from serving the corporation in any other capacity as an officer, agent, employee, or otherwise, and receiving compensation therefor.

ARTICLE VIII

INDEMNIFICATION

Section 1. Indemnification of Directors and Officers  
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Each person who was or is a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, formal or informal, whether brought in the name of the corporation or otherwise and whether of a civil, criminal, administrative or investigative nature (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is an alleged action or inaction in an official capacity or in any other capacity while serving as a director or officer, shall, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permissible under California law and the corporation's Articles of Incorporation, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise tax or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such person in connection therewith, and such indemnification shall continue as to a person who has ceased to be a director or officer and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that (a) the corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if



such proceeding (or part thereof) was authorized by the Board of the corporation, (b) the corporation shall indemnify such person seeking indemnification in connection with a proceeding (or part thereof) other than a proceeding by or in the name of the corporation to procure a judgment in its favor only if any settlement of such a proceeding is approved in writing by the corporation, and (c) that no such person shall be indemnified (i) except to the extent that the aggregate of losses to be indemnified exceeds the amount of such losses for which the director or officer is paid pursuant to any directors' and officers' liability insurance policy maintained by the corporation; (ii) on account of any suit in which judgment is rendered against such person for an accounting of profits made from the purchase or sale by such person of securities of the corporation pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; (iii) if a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful; (iv) for acts or omissions involving intentional misconduct or knowing and culpable violation of law; (v) for acts or omissions that the director or officer believes to be contrary to the best interests of the corporation or its shareholders or that involve the absence of good faith on the part of the director or officer; (vi) for any transaction for which the director or officer derived an improper personal benefit; (vii) for acts or omissions that show a reckless disregard for the director's or officer's duty to the corporation or its shareholders in circumstances in which the director or officer was aware, or should have been aware, in the ordinary course of performing his or her duties, of a risk of serious injury to the corporation or its shareholders; (viii) for acts or omissions that constitute an unexcused pattern of inattention that amounts to an abdication of the director's or officer's duties to the corporation or its shareholders; (ix) for costs, charges, expenses, liabilities and losses arising under Section 310 or 316 of the General Corporation Law of California (the "Law"); and (x) as to circumstances in which indemnity is expressly prohibited by Section 317 of the Law. The right to indemnification conferred in this Article shall be a contract right and shall include the right to be paid by the corporation expenses incurred in defending any proceeding in advance of its final disposition; provided, however, that if the Law requires the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, such advances shall be made only upon delivery to the corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts to the corporation if it shall be ultimately determined that such person is not entitled to be indemnified.





## Section 2. Indemnification of Employees and Agents

A person who was or is a party or is threatened to be made a party to or is involved in any proceedings by reason of the fact that he or she is or was an employee or agent of the corporation or is or was serving at the request of the corporation as an employee or agent of another enterprise, including service with respect to employee benefit plans, whether the basis of such action is an alleged action or inaction in an official capacity or in any other capacity while serving as an employee or agent, may, subject to the terms of any agreement between the corporation and such person, be indemnified and held harmless by the corporation to the fullest extent permitted by California law and the corporation's Articles of Incorporation, against all costs, charges, expenses, liabilities and losses (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement), reasonably incurred or suffered by such person in connection therewith. The immediately preceding sentence is not intended to be and shall not be considered to confer a contract right on any employee or agent (other than directors and officers) of the corporation.

## Section 3. Right of Directors and Officers to Bring Suit

If a claim under Section 1 of this Article is not paid in full by the corporation within 30 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim. Neither the failure of the corporation (including its Board, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is permissible in the circumstances because he or she has met the applicable standard of conduct, if any, nor an actual determination by the corporation (including its Board, independent legal counsel, or its shareholders) that the claimant has not met the applicable standard of conduct, shall be a defense to the action or create a presumption for the purpose of an action that the claimant has not met the applicable standard of conduct.

## Section 4. Successful Defense

Notwithstanding any other provision of this Article, to the extent that a director or officer has been successful on the merits or otherwise (including the dismissal of an action without prejudice or the settlement of a proceeding or action without admission of liability) in defense of any proceeding referred to in Section 1 or in defense of any claim, issue or matter therein, he or she shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred in connection therewith.



#### Section 5. Non-Exclusivity of Rights

The right to indemnification provided by this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, bylaw, agreement, vote of shareholders or disinterested directors or otherwise.

#### Section 6. Insurance

The corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the law.

#### Section 7. Expenses as a Witness

To the extent that any director, officer, employee or agent of the corporation is by reason of such position, or a position with another entity at the request of the corporation, a witness in any action, suit or proceeding, he or she shall be indemnified against all costs and expenses actually and reasonably incurred by him or her on his or her behalf in connection therewith.

#### Section 8. Indemnity Agreements

The corporation may enter into agreements with any director, officer, employee or agent of the corporation providing for indemnification to the fullest extent permissible under the law and the corporation's Articles of Incorporation.

#### Section 9. Separability

Each and every paragraph, sentence, term and provision of this Article is separate and distinct so that if any paragraph, sentence, term or provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or unenforceability of any other paragraph, sentence, term or provision hereof. To the extent required, any paragraph, sentence, term or provision of this Article may be modified by a court of competent jurisdiction to preserve its validity and to provide the claimant with, subject to the limitations set forth in this Article and any agreement between the corporation and claimant, the broadest possible indemnification permitted under applicable law.



## Section 10. Effect of Repeal or Modification

Any repeal or modification of this Article shall not adversely affect any right of indemnification of a director or officer existing at the time of such repeal or modification with respect to any action or omission occurring prior to such repeal or modification."

## ARTICLE IX

## CHAIRMAN OF THE BOARD

Section 1. If there shall be a Chairman of the Board of Directors, he shall, when present, preside at all meetings of the stockholders and the Board of Directors, and perform such other duties as the Bylaws or the Board of Directors shall require of him.

## ARTICLE X

## CHIEF EXECUTIVE OFFICER; OTHER EXECUTIVE OFFICERS

Section 1. The Board of Directors shall, at their first regular meeting, elect such officers as are required by Article VI hereof and such additional officers authorized by Article VI hereof as the Board, in its discretion, may choose to elect. If at any time the Chief Executive Officer shall be unable to act, the President (if there shall be one who is not also the Chief Executive Officer) shall act in his place and perform his duties; if the President or next most senior officer is unable to perform such duties, then the vice presidents, in such sequence as the Board of Directors may specify, shall act. If all the foregoing shall be unable to act, the senior officer among them shall appoint some other person in whom shall be vested, for the time being, all the duties and functions of Chief Executive Officer, to act until the Board of Directors can be convened and elect appropriate officers. The Chief Executive Officer (or person acting as such) shall:

1. Preside (if there shall be no Chairman of the Board of Directors or in his absence) over all meetings of the shareholders and directors;
2. Sign in behalf of the corporation contracts and other instruments in writing within the scope of his authority or if, when, and as directed so to do by the Board of Directors, but nothing herein shall limit the power of the Board of Directors to authorize such contracts and other instruments in writing to be signed by any other officer or person or limit the power of the Chief Executive Officer to delegate his authority in any such matter to another officer or other officers of the corporation. The Chief Executive Officer or any other officer specified by the Board of Directors may sign certificates of stock as provided in Article XIII hereof;



3. Delegate duties and responsibilities to any other officers and/or employees of the corporation in any manner not prohibited by these Bylaws or by the Board of Directors, and change such duties and responsibilities so delegated from time to time at will;

4. Call the directors together when he deems it necessary, and have, subject to the advice of the directors, direction of the affairs of the corporation; and

5. Generally discharge such other duties as may be required of him by the Bylaws of the corporation.

ARTICLE XI

SECRETARY

Section 1. The Board of Directors shall elect a Secretary:

1. It shall be the duty of the Secretary to keep a record of proceedings of the Board of Directors and of the shareholders, and to keep the corporate seal of the corporation. He shall be responsible for maintaining proper records showing the number of shares of stock of all classes and series issued and transferred by any shareholder, and the dates of such issuance and transfer;

2. Whenever it is provided in these Bylaws that notice shall be given either of regular or special meetings of the shareholders, regular or special meetings of the directors, or otherwise, such notice shall be given by the Secretary or by the Chief Executive Officer or by any person designated by either of them, or by any authorized person who shall have signed the call for such meeting. Any notice which the Secretary may give or serve, or act required to be done by him, may with like effect be given or served or done by or under the direction of an Assistant Secretary;

3. The Secretary shall discharge such other duties as pertain to his office or which may be prescribed by the Board of Directors.

ARTICLE XII

TREASURER

Section 1. The Treasurer shall receive and keep all the funds of the corporation and pay them out only on checks or otherwise, as directed by the Board of Directors; provided, however, that the Board of Directors may provide for a depository of the funds of the corporation, and may by resolution prescribe the manner in which said funds shall be drawn from said depository.





## ARTICLE XIII

## CERTIFICATES OF STOCK

Section 1. Certificates of stock shall be of such form and device as the Board of Directors may direct, and shall be signed by the genuine or facsimile signatures of the Chairman and Chief Executive Officer or the President or any authorized Vice President and the Secretary or an Assistant Secretary. Each certificate shall express on its face its number, date of issuance, the number of shares for which and the person to whom it is issued, the kind of shares represented by said certificate, and such other matters as may be required by law. Certificates of stock may be issued prior to full payment, in harmony with all permits issued by regulatory authorities having jurisdiction in the premises, or as is otherwise allowed by law, but any certificate issued prior to full payment must show on its face what amount has been paid thereon.

## ARTICLE XIV

## TRANSFER OF STOCK

Section 1. Shares of stock of the corporation may be transferred at any time by the holders, or by power of attorney, or by their legal representative, by endorsement on the certificate of stock, but no transfer is valid until the surrender of the endorsed certificate. A surrendered certificate shall be delivered up for cancellation before a new one is issued in lieu thereof, and the Secretary shall preserve the certificate so canceled or a suitable record thereof. If, however, a certificate is lost or destroyed, the Board of Directors may order a new certificate issued as is by law required or permitted.

## ARTICLE XV

## VOTING

Section 1. At all corporate meetings, each shareholder, either in person or by proxy, shall be entitled to as many votes as he owns shares of stock; however, every shareholder entitled to vote at any election for directors shall have the right to cumulate his votes.

## Section 2. Proxies

Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Secretary of the corporation; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution, unless the person executing it specifies therein the length of time for which such proxy is to continue in force, which in no case shall exceed seven (7) years from the date of its execution.



ARTICLE XVI

INDEBTEDNESS

Section 1. The Board of Directors shall have power to incur indebtedness, and the terms and amount thereof shall be entered in the minutes. The Board of Directors shall have the power to secure said indebtedness, or any obligation or obligations of the corporation, by pledge, mortgage, deed of trust, or other security given upon any property owned by it or in which it has any interest.

ARTICLE XVII

REGISTRAR AND/OR TRANSFER AGENT

Section 1. The Board of Directors may designate and appoint one or more registrars and/or transfer agents for the registration of the stock of the corporation, and make such rules and regulations for the registrations of stock at the office of such registrars and/or transfer agents as may to the Board of Directors seem desirable. The corporation may act as its own transfer agent, at the direction of the Board of Directors. The Board of Directors may, in its discretion, fix a transfer fee for transfer of stock certificates.

ARTICLE XVIII

MISCELLANEOUS

Section 1. Meetings. Notice. When Conclusive.

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An entry made in the minutes of the directors or shareholders, pursuant to resolution or recital, to the effect that the notice of such meeting required by these Bylaws to be given has been given, shall be conclusive upon the corporation, its directors, shareholders, and all other persons that such notice has been duly given in proper form and substance to the proper persons and for the requisite length of time.

ARTICLE XIX

SEAL

Section 1. The Board of Directors shall provide a suitable seal containing the name of the corporation, the years of its creation, and other appropriate words, and may alter the same at pleasure.



ARTICLE XX

AMENDMENTS TO BYLAWS

Section 1. Power of Shareholders

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New Bylaws may be adopted or these Bylaws may be amended or repealed by the vote of shareholders entitled to exercise a majority of the voting power of the corporation or by the written assent of such shareholders, except as otherwise provided by law or by the Articles of Incorporation.

Section 2. Power of Directors

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Subject to the right of the shareholders as provided in Section 1 of this Article XX to adopt, amend or repeal Bylaws, the Board of Directors may adopt, amend or repeal any of the Bylaws of this corporation, except that the powers of the Board of Directors to change, and/or establish the authorized number of directors of this corporation shall be as set forth in Article III of these Bylaws.

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I hereby certify that the foregoing is a full, true, and correct copy of the Bylaws of Southwest Gas Corporation, a California corporation, as in effect on the date hereof.

WITNESS my hand this 12th day of May, 1994.

/s/ Thomas J. Trimble

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Thomas J. Trimble  
Senior Vice President/General  
Counsel and Corporate Secretary

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SOUTHWEST GAS CORPORATION

MANAGEMENT INCENTIVE PLAN

1993

Effective May 12, 1993

Amended and Restated May 10, 1994





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## 1. PURPOSE OF THE PLAN

This 1993 Management Incentive Plan is intended to both replace the existing Southwest Gas Corporation Management Incentive Plan and encourage a selected group of highly compensated or management employees of the Company to remain in its employment and to put forth maximum efforts to achieve the Company's short- and long-term performance goals.

## 2. DEFINITIONS

- (a) "Actual Award" means the dollar amount earned by a Participant on the basis of the performance of the Company during the annual Performance Period.
- (b) "Annual Base Salary" means the calendar year-end rate of compensation paid to a Key Employee, including salary deferrals, but excluding bonuses, incentives, commissions, overtime, monetary and nonmonetary awards for employment service to the Company or payments or Company contributions to or from this Plan or any other Company retirement or deferred compensation, or similar plans.
- (c) "Annual Performance Measures" shall mean the performance criteria used by the Committee in determining the performance of the Company for the purpose of calculating Actual Awards for Participants earned under the Plan during a Performance Period.
- (d) "Award Conversion" means the division of Actual Awards earned into two portions:
  - (i) A portion payable in cash as soon as the Committee deems practicable following the end of an annual Performance Period.
  - (ii) A portion converted into Performance Shares and subject to a Restriction Period.
- (e) "Award Conversion Date" means the day that the Committee performs the Award Conversion on Actual Awards for a Performance Period.



- (f) "Board" or "Board of Directors" means the Board of Directors of Southwest Gas Corporation.
- (g) "Committee" means the Nominating and Compensation Committee of the Board of Directors, or any such other committee designated by the Board to administer the Plan.
- (h) "Common Stock" means the common stock of Southwest Gas Corporation.
- (i) "Company" means Southwest Gas Corporation and its present and future subsidiaries (other than PriMerit Bank and its subsidiaries) and any successor thereto.
- (j) "Disability" or "Disabled". A Participant shall be considered to be "Disabled" or to have incurred a "Disability" if he or she qualifies for a disability benefit under Southwest Gas Corporation's group long-term disability plan. In the event a Participant does not qualify for benefits under such disability plan, the Committee, in its sole and absolute discretion, may determine that a Participant is Disabled for purposes of this Plan.
- (k) "Dividend Credits" means the additional Performance Shares determined as set forth in Plan Section 7(d) calculated for each Restriction Period for the Participant's Performance Shares subject to such period.
- (l) "Employee" means any person who is a regular full-time employee of the Company, including those who are officers or Board members.
- (m) "Fiscal Year" means the Fiscal Year of the Company beginning each January 1st and ending the following December 31st.
- (n) "Incentive Award Opportunity" means the range of an Actual Award available to each Participant in this Plan for a given Performance Period.
- (o) "Involuntary Termination Without Cause" means a Participant's termination of employment (i) due to reorganization, downsizing, restructuring or layoff and (ii) not due to what the Committee determines was, in its sole and absolute discretion, either the Participant's inability to adequately perform his or her job, a violation of Company work rules or policies, or misconduct that the Committee determines is detrimental to the Company's best interests.
- (p) "Key Employee" means a management or highly compensated Employee of the Company who the Committee determines to (i) have a direct and



significant impact on the performance of the Company, and (ii) has a position or compensation that allows him or her to affect or influence, through negotiation or otherwise, the design or operation of this Plan so as to eliminate the Employee's need for the substantive rights and protections of Title I of the Employee Retirement Income Security Act of 1974.

- (q) "Long-Term Performance Measures" means the performance measures developed and utilized by the Committee in determining the performance of the Company for the purpose of calculating the number of shares of Common Stock payable to the Participant following the end of a Restriction Period.
- (r) "Participant" means a Key Employee who in the Committee's sole and absolute discretion is determined to be eligible to receive an Incentive Award Opportunity under this Plan.
- (s) "Peer Group" means the companies comprising the group against which the Committee assesses the performance of the Company for the purposes of determining Actual Awards earned, or for modifying the number of shares of Common Stock that are payable to Participants following the end of a Restriction Period.
- (t) "Performance Period" means a period of twelve months corresponding to the Company's Fiscal Year and for which the Company's performance is assessed by the Committee for the purpose of its determining Actual Awards earned.
- (u) "Performance Share" means a hypothetical share of Common Stock that will be converted into, and paid out, as a share of Common Stock only if all restrictions and conditions set forth in this Plan have been satisfied. The Performance Share carries no voting rights but does entitle the Participant to receive Dividend Credits determinable under Plan Section 7(d).
- (v) "Plan" means the Southwest Gas Corporation 1993 Management Incentive Plan as set forth herein and as amended from time to time.
- (w) "Restriction Period" means, with respect to each grant of Performance Shares to a Participant, a period of at least thirty six (36) consecutive calendar months beginning with the last day of February prior to the Award Conversion Date applicable to such shares.





- (x) "Retire" or "Retirement" means the termination of a Participant's employment with the Company on or after the Participant has attained his or her early retirement date, normal retirement date, or deferred retirement date as defined in the Retirement Plan for Employees of Southwest Gas Corporation, as amended and in effect from time to time.
- (y) "Target Award" means the Incentive Award Opportunity available to each Participant if all Performance Measures for a Performance Period are fully met but not exceeded.

### 3. ADMINISTRATION

- (a) The Plan shall be administered by non-Employee members of the Committee, which shall be composed of not less than three members of the Board of Directors. The non-Employee members of the Committee chosen to administer the Plan shall not have received an award under this Plan or any plan preceding this Plan within the last calendar year. The Board of Directors may designate alternate members of the Committee from non-Employee Board members who satisfy the above criteria to act in the place and stead of any absent member of the Committee.
- (b) The Committee shall have full and final authority to operate, manage, and administer the Plan on behalf of the Company. This authority includes but is not limited to the following:
  - (i) Determination of eligibility for participation in the Plan;
  - (ii) Determination of Actual Awards earned and the Award Conversion of the Actual Awards;
  - (iii) Payment of Actual Awards that have become nonforfeitable;
  - (iv) Directing the Company to make the accruals and payments provided for by the Plan;
  - (v) Interpretation of the Plan and the resolution of any inconsistent or conflicting Plan language as well as factual or nonfactual questions regarding a Participant's eligibility for, and the amount of, benefits payable under the Plan;
  - (vi) Power to prescribe, amend, or rescind rules and regulations relating to the Plan;



- (vii) Power to determine the vesting schedules, if any, for all awards; and
  - (viii) Powers prescribed to the Committee elsewhere in the Plan.
- (c) With respect to Incentive Award Opportunities and Actual Awards earned, the Committee shall have full and final authority in its sole and absolute discretion to determine the Incentive Award Opportunities for individual Participants; determine the time or times at which Actual Awards may be calculated; determine the length of all applicable Performance Periods and/or Restriction Periods; determine the award schedule and the Annual and Long-Term Performance Measures (and the Company's satisfaction or failure to satisfy such measures) that will be used in calculating Actual Awards and in determining the number of shares of Common Stock payable to Participants at the end of the Restriction Period; and determine the composition of the Peer Group to be used in assessing the Company's performance.
- (d) A majority of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present, or acts approved in writing by all the members in the absence of a meeting, shall be the acts of the Committee. All Committee interpretations, determinations, and actions will be final, conclusive, and binding on all parties.
- (e) No member of the Board or the Committee will be liable for any action taken or determination made in good faith by the Board or the Committee with respect to the Plan or any Actual Award calculated and paid hereunder.

#### 4. ELIGIBILITY

- (a) In determining the Key Employees that will be Participants and the Incentive Award Opportunity for each Participant, the Committee shall take into account the duties of the respective Participant, their present and potential contributions to the success of the Company, and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan.
- (b) No Incentive Award Opportunity will be available to any person who, at the beginning of the applicable Performance Period, is a member of the Committee responsible for the administration of the Plan.



## 5. INCENTIVE AWARD OPPORTUNITIES

- (a) The Committee will establish the Incentive Award Opportunity for each Participant or class of Participants designated by the Committee. The Incentive Award Opportunity will be expressed as percentages of the Participant's Annual Base Salary.
- (b) An Incentive Award Opportunity will range from zero to some specific maximum percentage of the Participant's Annual Base Salary (or maximum dollar amount).
- (c) Before or during each Performance Period a Participant will be assigned a specific Target Award that will fall within the range of the Participant's Incentive Award Opportunity. The Target Award will be awarded to the Participant if, in the judgement of the Committee, all applicable Annual Performance Measures have been fully met.
- (d) Actual Awards for each Participant in the Plan shall be determined by the Committee following the end of the applicable Performance Period, taking into account how the Company performed on the basis of the Annual Performance Measures developed and utilized by the Committee for the Performance Period. Notwithstanding the foregoing, if Southwest Gas Corporation's Chief Executive Officer (hereinafter the "CEO") or Chief Financial Officer (hereinafter the "CFO") are Participants, the Committee may consider the performance of PriMerit Bank during a Performance Period when examining the Annual Performance Measures and determining the Actual Award for the CEO and/or CFO for the period.

## 6. PROCEDURES FOR CALCULATING AND PAYING ACTUAL AWARDS

- (a) The Committee shall establish the Annual Performance Measures that will be utilized for one or more Performance Periods in assessing the performance of the Company for the purpose of determining the Actual Awards earned under this Plan. These measures and the standards of performance associated with them may change from year to year and may receive different emphasis or weight according to the changing priorities of the Company. It is expected that the Annual Performance Measures generally will be tied to the financial performance of the Company and will be based on a combination of (i) the Company's performance in relation to its own performance standards and (ii) the Company's performance in relation to that of its Peer Group. In addition to the Annual Performance Measures, each Participant will be expected to meet individual performance goals.



- (b) Following the end of each Performance Period, the Committee will compare the Company's actual performance during such period with the Annual Performance Measures it established for the period, and the Actual Award, if any, for a Participant will be calculated. For each Performance Period the Committee will utilize an award schedule for calculating the Actual Awards earned on the basis of the Company's performance. The award schedule may be modified by the Committee from year to year as Annual Performance Measures or the standards of performance associated with such measures change.
- (c) Following the calculation of Actual Awards, the Chief Executive Officer will make an overall assessment of each Participant's attainment of individual performance goals and may reduce a Participant's Actual Award based upon such assessment. Further, the Chief Executive Officer may recommend to the Committee that no Actual Award be given to a Participant based on his assessment of individual performance. The assessment of the individual performance of the Chief Executive Officer will be made by the Board of Directors.
- (d) Following the calculation of the Actual Awards, adjusted as provided for in Plan Section 6 (c), an Award Conversion will be made whereby the Actual Awards for each Participant will be split into two components. The first component will be a dollar amount that is payable to the Participant in cash as soon as the Committee deems practical following the Award Conversion Date. The second component will be a dollar amount that is converted into whole or partial Performance Shares, which shall be restricted for a period of at least thirty six consecutive calendar months beginning on the Award Conversion Date applicable to such shares. The number of Performance Shares allocable to each Participant shall be determined by dividing (i) the dollar amount available for the Participant's Performance Shares (determined by the Award Conversion), by (ii) the closing per share value of the Common Stock on the New York Stock Exchange on the last trading day on the Exchange before the Award Conversion Date. Payment of Performance Shares shall occur at the time provided in Plan Section 7(c).
- (e) The Committee shall have the sole and absolute responsibility for determining Actual Awards of Participants. Generally, the Actual Awards generated by application of the award schedule established by the Committee for one or more Performance Periods will be the Actual Awards that will be payable to each Participant; provided, however, that the Committee may, prior to the Award Conversion Date, alter the Actual Awards generated by the awards schedule if, in the opinion of the Committee, there have been exceptional circumstances





that have either created inappropriate windfalls or shortfalls in the Company's performance (or the performance of PriMerit Bank in the case of the CFO and CEO), which, in turn, have resulted in inappropriately large or small Actual Awards.

- (f) If, during a Performance Period, the Committee determines that the established Annual Performance Measures are no longer suitable due to a change in the Company's business, operations, corporate structure, capital structure, or other conditions the Committee deems to be material, the Committee may modify the Annual Performance Measures as it considers appropriate and equitable.

## 7. PERFORMANCE SHARES

- (a) On the Award Conversion Date, Participants who earned an Actual Award during the preceding Performance Period will have an entry made on the Company's books reflecting the Performance Shares allocable to them as determined pursuant to Plan Section 6(c).
- (b) A Participant's Performance Shares earned in a given Performance Period will be subject to a Restriction Period of at least thirty six consecutive calendar months beginning on the Award Conversion Date applicable to such shares. During the Restriction Period, the Participant may not, except as provided in Plan Section 8(d), receive payment for his or her Performance Shares.
- (c) For the Restriction Period applicable to each Performance Period, the Committee shall establish certain Long-Term Performance Measures that will be used to determine the number of Performance Shares that shall be paid to the Participant on the date(s) determined by the Committee which shall be within a reasonable period following the end of the Restriction Period. Notwithstanding anything in this Plan to the contrary, if the Committee determines that the Company has satisfied or failed to satisfy the Long-Term Performance Measures, it may, as provided in Plan Section 7(e), increase or decrease the number of Performance Shares credited to the Participant at the beginning, and over the course of the Restriction Period. The Long-Term Performance Measures will be tied to the performance of the Company (in the case of the CEO and CFO, the Committee may also consider the performance of PriMerit Bank) as measured against certain financial criteria and may be specified in absolute terms or specified relative to the performance of a Peer Group (in the case of the CEO and CFO the Committee may also consider the performance of PriMerit Bank).



- (d) During each Restriction Period, a Participant will receive Dividend Credits equal to the quarterly dividend paid per share of Common Stock, multiplied by the number of Performance Shares then credited to the Participant on the Company's records, and divided by the closing per share value of the Common Stock on the New York Stock Exchange on the date such dividends are paid or the last trading day on the Exchange before such payment. These additional Performance Shares will be subject to the same restrictions as the Performance Shares already credited to the Participant, and such restrictions will lapse at the same time as the restrictions lapse on the Performance Shares granted at the Award Conversion Date.
- (e) Following the end of a Restriction Period, the Participant shall receive a specific number of shares of Common Stock equal to the total number of Performance Shares allocated to the Participant at the beginning of such Restriction Period plus the Performance Shares credited quarterly through Dividend Credits during the Restriction Period. The total number of shares of Common Stock the Participant is entitled to receive may be modified by up to plus or minus 20% on the basis of how the Company performs (as to the CEO and CFO, the Committee may also consider the performance of PriMerit Bank) during the length of the Restriction Period against the Long-Term Performance Measures established by the Committee for the Restriction Period. Payment of Common Stock pursuant to this paragraph shall occur on the date(s) determined by the Committee which shall be within a reasonable period following the end of the Restriction Period applicable to such Performance Shares.
- (f) Notwithstanding anything else in this Plan to the contrary, if the Plan is not approved by Southwest Gas Corporation shareholders pursuant to Plan Section 12, the Performance Shares shall not entitle the Participant to receive shares of Common Stock of the Company following the end of the Restriction Period but shall instead entitle the Participant to receive a cash payment following the end of the Restriction Period. The cash payment shall equal the fair market value of the shares of Common Stock the Participant would have received hereunder. For this purpose, the fair market value of the Common Stock shall be determined using closing per share value of the stock on the New York Stock Exchange on the last trading day on the Exchange of the applicable Restriction Period.

#### 8. PARTICIPANT TERMINATIONS AND TRANSFERS

- (a) Should a Participant's continuous employment with the Company terminate for any reason other than death, Disability, Retirement,



or Involuntary Termination Without Cause during a Performance Period, the Participant's right to receive an Actual Award for such period will be forfeited by the Participant.

- (b) Should a Participant's continuous employment with the Company terminate for any reason other than death, Disability, Retirement, or Involuntary Termination Without Cause during a Restriction Period, the Participant's right to receive payments of his or her outstanding Performance Shares will be forfeited by the Participant.
- (c) Should a Participant die, become Disabled, Retire, or have his or her employment Involuntarily Terminated Without Cause during the Performance Period, the Participant (or the Participant's beneficiary in the case of a deceased Participant) will be entitled to receive an Actual Award at the end of the Performance Period determined on a pro rata basis according to the number of months of the Performance Period actually worked while being a Participant in the Plan.
- (d) Should a Participant die, become Disabled, Retire, or have his or her employment Involuntarily Terminated Without Cause during a Restriction Period, the Participant (or the Participant's beneficiary in the case of a deceased Participant) will receive a distribution of Common Stock equal to the total number of Performance Shares then credited to the Participant. If Plan Section 7(f) applies, cash and not Common Stock shall be paid and the amount of such payment shall be determined by multiplying the Participant's Performance Shares by the closing per share value of the Common Stock on the New York Stock Exchange on the date of such event or the last trading day on the Exchange before such event. Payment of Common Stock (or cash if Plan Section 7(f) applies) shall occur within a reasonable period (as determined by the Committee) following the date of the Participant's death, Disability, Retirement, Disability, or Involuntary Termination Without Cause.

A Participant shall have the right to designate any person as his or her Beneficiary to whom benefits determined under Plan Section 8(c) and the preceding paragraph ("Death Benefits") shall be paid in the event of the Participant's death prior to the total distribution of his/her Death Benefits. If greater than 50 percent of the Death Benefits is designated to a beneficiary other than the Participant's lawful spouse, such beneficiary designation must be consented to by the Participant's lawful spouse. Each beneficiary designation must be in written form prescribed by the Committee and will be effective only when filed with the Committee, or its designee, during the Participant's lifetime.



A Participant may change a beneficiary designation, subject to spousal consent under the preceding paragraph, by filing a new beneficiary designation with the Committee or its designee. The filing of a new beneficiary designation form will cancel all beneficiary designations previously filed. The Committee shall be entitled to rely on the beneficiary designation last filed by the Participant prior to his/her death. Any payment made in accordance with such designation shall fully discharge the Company from all further obligations with respect to the amount of such payments.

If a beneficiary entitled to receive benefits under the Plan is a minor or a person declared incompetent, the Committee may direct payment of such benefits to the guardian or legal representative of such minor or incompetent person. The Committee may require proof of incompetency, minority or guardianship as it may deem appropriate prior to distribution of any Death Benefits. Such distribution shall completely discharge the Committee and the Company from all liability with respect to such payments.

If no beneficiary designation is in effect at the time of the Participant's death, or if the named beneficiary predeceased the Participant, then the beneficiary shall be: (1) the surviving lawful spouse; (2) if there is no surviving lawful spouse, then Participant's issue per stirpes; or (3) if no surviving lawful spouse or issue, then Participant's estate.

- (e) If a Participant changes jobs with the Company during the course of a Performance Period and his or her new job has a different Incentive Award Opportunity under the Plan, the Participant's Incentive Award Opportunity for the Performance Period shall be the sum of the products obtained by multiplying (i) the percentage of the full Performance Period spent in each job by (ii) the Incentive Award Opportunity for each such job. In special circumstances, which the Committee may identify from time to time, the Participant may be assigned for the full Performance Period the Incentive Award Opportunity that corresponds to any one of the jobs held by the Participant during the Performance Period rather than combining partial Incentive Award Opportunities for the jobs.
- (f) Should a Key Employee become eligible to participate in the Plan after the beginning of a Performance Period, the Participant will be entitled to an Incentive Award Opportunity on the basis of the number of months of the full Performance Period the Key Employee is a Participant in the Plan.





## 9. CHANGES IN CAPITAL STRUCTURE AND OTHER EVENTS

- (a) Notwithstanding anything in the Plan to the contrary, upon dissolution or liquidation of the Company (or upon a reorganization, merger, or consolidation of the Company with one or more corporations as a result of which the Company is not the surviving corporation,) or upon the sale of all or substantially all of the assets of the Company, Performance Shares then outstanding under the Plan will, within a reasonable time period following such change, be determined by the Committee and settled and paid on the basis of the amount, and other terms, as determined by the Committee, unless provisions are made for the continuance of the Plan and the assumption or the substitution of such Performance Shares with new awards by such successor employer corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of units, prices, and Performance Share values.
- (b) All determinations, decisions, and adjustments made by the Committee pursuant to Plan Section 9(a) will be final, binding, and conclusive. No fractional interest will be issued under the Plan on account of such adjustments.
- (c) In the event (i) a report on Schedule 13D is filed with the Securities and Exchange Commission pursuant to Section 13(d) of the Securities Exchange Act of 1934 (referred to as the "Act") disclosing that any "person" (as defined in Section 13(d) of the Act) other than the Company or one of its subsidiaries or an employee benefit plan sponsored by the Corporation or one of its subsidiaries is the beneficial owner, directly or indirectly, or twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company; (ii) any "person" (as defined in Section 13(d) of the Act) other than the Company or one of its subsidiaries, or an employee benefit plan sponsored by the Company or one of its subsidiaries shall purchase securities pursuant to a tender offer or exchange offer to acquire any Common Stock of the Company (or securities convertible in Common Stock) for cash, securities, or any other consideration, provided that after the consummation of the offer, the person in question is the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly or twenty percent (20%) or more of the combined voting power of the then outstanding securities of the Company (as determined under paragraph (d) of Rule 13d-3 under the Act, in the case of rights to acquire Common Stock); (iii) the stockholders of the Company shall approve (a) any consolidation or merger of the Company (1) in which the Company is not the continuing or surviving corporation, (2) pursuant to which shares of Common



Stock of the Company would be converted into cash securities, or other property, or (3) with a corporation that prior to such consolidation or merger owned twenty percent (20%) or more of the cumulative voting power of the then outstanding securities of the corporation, or (b) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; or (iv) there shall have been a change in the majority of the Board of the Company within a twelve-month period, unless the election or nomination for election by the Company's stockholders of each director during such twelve-month period was approved by the vote of two-thirds (2/3) of the directors then in office who were directors at the beginning of such twelve-month period, the Committee may in its sole and absolute discretion, without obtaining stockholder approval, at the time of any one or more of the foregoing actions, to the extent permitted in Plan Section 7, with respect to all Participants:

- (i) Accelerate the settlement dates of some or all outstanding Performance Shares;
- (ii) Make any other adjustments or amendments to the Plan and outstanding Incentive Award Opportunities and Performance Shares; or
- (iii) Substitute new Incentive Award Opportunities.

10. PROVISIONS REGARDING WITHHOLDING TAXES

- (a) The Committee may require a Participant receiving Common Stock upon conversion of Performance Shares awarded hereunder to reimburse the Company for any taxes required by any government to be withheld or otherwise deducted and paid by the Company in respect of the issuance to or disposition of shares by the Participant (a "Taxable Event"). Any payment on account of a tax obligation shall be in a form acceptable to the Committee. If upon the occurrence of a Taxable Event the Participant does not, in the time required by law or designated by the Committee, reimburse the Company for taxes as provided for above: (i) the Company shall have the right to withhold some or all of the amount of such taxes from any other sums due or to become due from the Company to the Participant upon such terms and conditions as the Committee shall prescribe, and (ii) the Company may satisfy some or all of the tax obligation of such Participant by withholding shares of Common Stock acquired by the Participant in the conversion of any Performance Shares and may in the same manner satisfy some or all of any additional tax obligation resulting from such withholding.



- (b) At any time that the Company becomes subject to a withholding obligation under applicable law with respect to the conversion of Performance Shares, except as set forth below with respect to persons subject to Section's 16(a) and (b) of the Exchange Act, a Participant may elect to satisfy, in whole or in part, the Participant's related estimated personal tax liabilities by directing the Company to withhold from the shares of Common Stock issuable in the related conversion of Performance Shares either (i) a specified percentage of shares, (ii) a specified number of shares or (iii) shares having a specified value, in each case with a value not in excess of such estimated tax liabilities. Such an election shall be irrevocable. The shares of Common Stock withheld in payment shall be valued at their fair market value on the date that the withholding obligation arises (the "Tax Date"). The Committee may disapprove of any election, suspend or terminate the right to make elections or provide that the right to make elections shall not apply to particular conversions. If a Participant is a person subject to Sections 16(a) and (b) of the Exchange Act then (A) any election by such Participant must be made either (i) at least six months prior to the relevant Tax Date or (ii) on or prior to the relevant Tax Date and during a period that begins on the third business day following the date of release for publication of the Company's quarterly or annual summary statements of sales and earnings and that ends on the twelfth business day following such date and (B) the election may not be made with respect to shares of Common Stock representing a conversion of a Performance Shares grant, or the withholding obligation arising thereon, if the relevant Performance Shares were granted six months or less prior to the date of election. The Committee may impose any other conditions or restrictions on the right to make an election as it shall deem appropriate.

11. PROVISIONS APPLICABLE TO COMMON STOCK

- (a) Shares of Common Stock to be delivered to Participants at the end of the Restriction Period may be previously authorized but unissued shares or may be previously issued and reacquired shares.
- (b) If at any time the Board shall determine in its discretion that the listing, registration or qualification upon any national securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the sale, purchase, issuance or delivery of Common Stock under the Plan, no Common Stock shall be sold, purchased, issued or delivered, as the case may be, unless and until such listing, registration, qualification, consent or approval shall have been effected or



obtained, or otherwise provided for, free of any conditions not acceptable to the Board.

- (c) Except as hereafter provided and if so required by the Committee, the recipient of any Performance Share award shall, upon receipt of any shares of Common Stock due to the Award Conversion of Performance Shares represented by the award, execute and deliver to the Company a written statement, in form satisfactory to the Company, in which such Participant represents and warrants that such Participant is acquiring the shares for such Participant's own account, for investment only and not with a view to the resale or distribution thereof, and agrees that any subsequent offer for sale or sale or distribution of any such shares of Common Stock shall be made only pursuant to either (a) a Registration Statement on an appropriate form under the Securities Act of 1933, as amended (the "Securities Act"), which Registration Statement has become effective and is current with regard to the shares of Common Stock being offered or sold, or (b) a specific exemption from the registration requirements of the Securities Act, but in claiming such exemption the holder or recipient shall, if required by the Company, prior to any offer for sale or sale of such shares, obtain a favorable written opinion, in form and substance satisfactory to the Company, from counsel for or approved by the Company, as to the applicability of such exemption thereto. The foregoing restriction shall not apply to (i) issuances by the Company so long as the shares being acquired are registered under the Securities Act and a prospectus in respect thereof is current or (ii) reofferings of shares by affiliates of the Company (as defined in Rule 405 or any successor rule or regulation promulgated under the Securities Act) if the shares being reoffered are registered under the Securities Act and a prospectus in respect thereof is current.
- (d) The Company may endorse such legend or legends upon the certificates for shares of Common Stock issued upon conversion of Performance Shares made hereunder and may issue such "stop transfer" instructions to its transfer agent in respect of such shares as, in its discretion, it determines to be necessary or appropriate to (i) prevent a violation of, or to perfect an exemption from, the registration requirements of the Securities Act, or (ii) implement the provisions of the Plan and any agreement between the Company and the Participant.
- (e) The Company shall pay all issue taxes with respect to the issuance of shares of Common Stock upon conversion of Performance Shares, as well as all fees and expenses necessarily incurred by the Company in connection with such issuance.





## 12. EFFECTIVE DATE; STOCKHOLDER APPROVAL

The Plan shall become effective upon adoption by the Board, provided, however, that unless and until the Plan is approved by a vote of the shareholders of Southwest Gas Corporation at the 1994 annual shareholders' meeting, all Performance Shares awarded hereunder shall, when otherwise payable under the Plan, be, as provided in Plan Section 7(f), converted into cash and not Common Stock.

## 13. AMENDMENT AND TERMINATION OF THE PLAN

The Board at any time and from time to time may, without prior notice to Participants, suspend, terminate, modify, or amend the Plan. Except as otherwise provided for in Plan Sections 5, 6, 7, 8 and 9, no suspension, termination, modification, or amendment of the plan may adversely affect any award previously granted, unless the written consent of the Participant is obtained. Notwithstanding the authority granted to the Board herein, if the shareholder's of Southwest Gas Corporation have approved this Plan as contemplated in Plan Section 12 above, no amendment to the Performance Share provisions of this Plan shall become effective without shareholder approval if, as to executive officer Participants, such amendment would:

- (i) materially increase the benefits accruing to such Participants under the Plan;
- (ii) materially increase the number of Performance Shares which may be issued to such Participants under the Plan; or
- (iii) materially modify the requirements as to eligibility for executive participation in the Plan.

## 14. BENEFIT CLAIMS PROCEDURE

- (a) Any claim for money or stock awards under the Plan shall be made in writing to the Committee. If such claim is wholly or partially denied, the Committee shall, within ninety (90) days after receipt of the claim, notify the Participant or Beneficiary of the denial of the claim. Such notice of denial shall (i) be in writing, (ii) be written in a manner calculated to be understood by the Participant or Beneficiary, and (iii) contain the specific reason or reasons for denial of the claim, a specific reference to the pertinent Plan provisions upon which the denial is based, a description of any additional material or information necessary to perfect the claim,



along with an explanation of why such material or information is necessary, and an explanation of the claim review procedure. The ninety (90) day period may, under special circumstances, be extended up to an additional ninety (90) days upon written of such extension to the Participant or Beneficiary which notice shall specify the special circumstances and the extended date of the decision. Notice of extension must be given prior to expiration of the initial ninety (90) day period. If not notice of decision is given within the periods specified above, the claim shall, on the last day of the notice period, be deemed to have been denied and the Participant or Beneficiary may file a request for review as provided in the next paragraph.

- (b) Within sixty (60) days after the receipt of the decision denying a claim (or the occurrence of the date that a claim is deemed denied) by the Participant or Beneficiary, the Participant or Beneficiary may file a written request with the Committee that it conduct a full and fair review of the denial of the claim. The Participant or Beneficiary or his or her duly authorized representative may review pertinent documents and submit issues and comments in writing to the Committee in connection with the review.
- (c) The Committee shall deliver to the Participant or Beneficiary a written decision on the review of the denial within sixty (60) days after receipt of the aforesaid request for review, except that if there are special circumstances (such as the need to hold a hearing, if necessary) which require an extension of time for processing, the aforesaid sixty (60) day period shall, upon written notice to the Participant or Beneficiary be extended an additional sixty (60) days. Such decision shall (i) be in writing, (ii) be written in a manner calculated to be understood by the Participant or Beneficiary, (iii) include the specific reason or reasons for the decision, and (iv) contain a specific reference to the pertinent Plan provisions upon which the decision is based. If the decision on review is not delivered to the Participant or Beneficiary within the periods specified, the claim shall be considered denied on the last day of the review period.
- (d) Upon a Participant or Beneficiary filing a claim, the Committee shall notify the party filing of the claim and review procedure including the time periods involved.

#### 15. GENERAL PROVISIONS

- (a) Nothing in this Plan or in any award granted pursuant hereto shall confer on an individual any right to continue in the employ of the



company or any of its subsidiaries or interfere in any way with the right of the Company or any such subsidiary to terminate any employment.

- (b) Upon its adoption by the Board, this Plan shall replace the existing Southwest Gas Corporation Management Incentive Plan with respect to periods commencing January 1, 1993.
- (c) Awards granted under the Plan shall not be transferable otherwise than as provided for in Plan Section 8(d), by will or by the laws of descent and distribution, and awards may be realized during the lifetime of the Participant only by the Participant or by his guardian or legal representative.
- (d) The section and subsection heading are contained herein for convenience only and shall not affect the construction hereof.
- (e) A Participant's rights to Performance Shares and other Plan benefits represent rights to merely an unfunded and unsecured promise of a future payment of money or property. A Participant shall look only to the Company for the payment of Performance Shares and other Plan benefits and such shares and benefits shall, until paid, be subject to the claims of Company creditors. A Participant's rights under the Plan shall be only that of an unsecured general creditor of the Company.

IN WITNESS WHEREOF, Southwest Gas Corporation has caused this Plan to be executed this 13th day of May, 1994.

SOUTHWEST GAS CORPORATION

By \_\_\_\_\_ /s/ MICHAEL O. MAFFIE

Its \_\_\_\_\_ President/Chief Executive Officer

SOUTHWEST GAS CORPORATION

EXECUTIVE DEFERRAL PLAN

Effective March 1, 1986

Amended and restated March 1, 1988

Amended and restated March 1, 1989

Amended and restated March 1, 1990

Amended and restated October 29, 1992

Amended and restated May 10, 1994



MASTER PLAN DOCUMENT  
OF THE  
SOUTHWEST GAS CORPORATION  
EXECUTIVE DEFERRAL PLAN

PURPOSE

The purpose of this Plan is to provide specified benefits to a select group of key employees who contribute materially to the continued growth, development and future business success of SOUTHWEST GAS CORPORATION.

ARTICLE 1  
DEFINITIONS

For purposes hereof, unless otherwise clearly apparent from the context, the words and phrases listed below shall be defined as follows:

- 1.1 "Account Balance" means a Participant's individual fund comprised of Deferrals, Company Contributions and interest earnings credited thereon up to the time of Benefit Distribution.
- 1.2 "Base Annual Salary" means the yearly compensation paid to an Executive, excluding bonuses, commissions, overtime, and nonmonetary awards for employment services to the Company.
- 1.3 "Beneficiary" means the person or persons, or the estate of a Participant, named to receive any benefits under the Plan upon the death of a Participant.
- 1.4 "Benefit Account Balance" shall have the meaning set forth in Article 5.3.
- 1.5 "Benefit Distribution" means the date benefits under the Plan commence or are paid in full to a Participant, or because of his death, to his Beneficiary, which will occur within 90 days of notification to the Company of the event that gives rise to such distribution.
- 1.6 "Board of Directors" means the Board of Directors of Southwest Gas Corporation.
- 1.7 "Bonus" means the portion of actual awards, if any, paid in cash following the end of a Performance Period under the terms of Southwest Gas Corporation's 1993 Management Incentive Plan.





- 1.8 "Committee" means the administrative committee appointed by the Board of Directors to manage and administer the Plan in accordance with the provisions of the Plan.
- 1.9 "Company" means Southwest Gas Corporation and such of its Subsidiaries as the Board of Directors may select to become parties to the Plan.
- 1.10 "Company Contributions" means the amount added, if any, to a Participant's Account Balance in accordance with Article 3.2 of the Plan.
- 1.11 "Deferral(s)" means the amount of Base Annual Salary and Bonus transferred to the Plan accounts.
- 1.12 "Executive" means any officer of Southwest Gas Corporation.
- 1.13 "Employee" means any full-time employee of the Company as determined under the personnel policies and practices of the Company.
- 1.14 "Master Plan Document" means this legal instrument containing the provisions of the Plan.
- 1.15 "Moody's Rate" means Moody's Seasoned Corporate Bond Rate which is an economic indicator consisting of an arithmetic average of yields of representative bonds (industrial and AAA, AA and A rated public utilities) as of January 1 prior to each Plan Year as published by Moody's Investors Service, Inc. (or any successor thereto), or, if such index is no longer published, a substantially similar index selected by the Board of Directors.
- 1.16 "Moody's Composite Rate" means the average of the Moody's Rate on January 1 for the five years prior to Benefit Distribution.
- 1.17 "Participant" means any Executive who is an officer of Southwest Gas Corporation who executes a Plan Agreement or an Employee of the Company who has been selected to participate in the Plan and who executes a Plan Agreement.
- 1.18 "Plan" means the Executive Deferral Plan of the Company evidenced by this Master Plan Document.
- 1.19 "Plan Agreement" means the form of written agreement which is entered into from time to time, by and between the Company and a Participant.
- 1.20 "Plan Year" means the year beginning on March 1 of each year.



- 1.21 "Retire" or "Retirement" means the severance from employment with the Company on or after attaining age fifty-five (55) with ten Years of Service, other than by death, disability or Termination of Employment.
- 1.22 "Subsidiary" means any corporation, partnership, or other organization which is at least 50 percent owned by the Company or a Subsidiary of the Company.
- 1.23 "Terminates Employment" means the ceasing of employment with the Company, either voluntarily or involuntarily, excluding Retirement, disability or death.
- 1.24 "Years of Service" means the length of time a Participant has been employed by the Company as defined in the Southwest Gas Corporation Retirement Plan for Employees.

ARTICLE 2  
ELIGIBILITY

- 2.1 An Executive shall become eligible to participate in the Plan as of the effective date of his election as an officer by the Board of Directors. The Committee in its sole discretion may select any other Employee to become eligible to participate in the Plan.
- 2.2 If a Participant ceases to be an officer of Southwest Gas Corporation and he continues as an Employee, the Committee in its sole discretion will determine whether such Employee will continue to be eligible to participate in the Plan.
- 2.3 Once eligible to participate in the Plan, an Executive or an Employee has to complete, execute and return to the Committee a Plan Agreement to become a Participant in the Plan. Continued participation in the Plan is subject to compliance with any further conditions as may be established by the Committee.

ARTICLE 3  
DEFERRAL COMMITMENT AND COMPANY CONTRIBUTION

- 3.1 A Participant may defer up to 50 percent of his Base Annual Salary and Bonus received during a Plan Year; provided, that such Deferral exceeds \$2,000 per Plan Year.
- 3.2 If a Participant makes a Deferral commitment, the Company will contribute an amount equal to 50 percent of the Participant's Deferral, up to a maximum of 3 percent of the Participant's Base Annual Salary, to the Participant's Account Balance.



- 3.3 Prior to the commencement of each Plan Year, a Participant will advise the Committee, in writing, of his Base Annual Salary Deferral commitment for the upcoming Plan Year. At that same time, a Participant will also make his Bonus Deferral commitment for the Plan Year following the upcoming Plan Year. If a Participant fails to so advise the Committee, through no fault of the Company, he will not be permitted to defer any of his Base Annual Salary during upcoming Plan Year or Bonus during the next subsequent Plan Year.
- 3.4 A Participant's Deferral commitment will be exercised on a per pay period basis for the portion of his Base Annual Salary that is deferred. The exercise of a Participant's Deferral commitment with respect to his Bonus will occur at the time the Bonus is paid.
- 3.5 The Committee reserves the right to adjust any Participant's Deferral commitment during a Plan Year to ensure that a Participant's actual Deferral does not exceed the maximum allowable amount.
- 3.6 In the event an Executive or an Employee becomes a Participant in the Plan during a Plan Year, such Participant may defer up to 50 percent of the remaining portion of his Base Annual Salary for the current Plan Year. At that same time, a Participant will also make his Bonus Deferral commitment for the upcoming Plan Year. Such Participant must make his Deferral commitment by advising the Committee, in writing, at the time he elects to become a Participant in the Plan.
- 3.7 In the event a Participant defaults on his Base Annual Salary Deferral commitment, the Participant will not be allowed to make any further Deferrals during the current Plan Year and may not make any Deferrals for the subsequent Plan Year. In the event a Participant defaults on his Bonus Deferral commitment for a particular Plan Year, the Participant will not be able to defer any of his Bonus for that Plan Year or the subsequent Plan Year.
- 3.8 The Committee may waive for good cause the default penalty specified in Article 3.7 upon the request of the Participant.



ARTICLE 4  
INTEREST, CREDITING AND VESTING

- 4.1 A Participant's Account Balance at the start of a Plan Year and any Deferrals and Company contributions made during a Plan Year will earn, except as provided for in Article 4.2, interest annually at 150 percent of the Moody's Rate. Interest will be credited to a Participant's account for Deferrals and Company contributions made during the Plan Year, as if all Deferrals and contributions were made on the first day of the Plan Year.
- 4.2 If a Participant Terminates Employment prior to completing five (5) Years of Service with the Company, interest credited for all Deferrals and vested Company contributions to a Participant's Account Balance will be adjusted based on the Moody's Rate during the period he participated in the Plan.
- 4.3 Company contributions and interest earned on such contributions will vest to a Participant at the rate of 20 percent per Year of Service and will vest completely once a Participant has five Years of Service with the Company.
- 4.4 In the event a Participant is allowed to postpone Benefit Distribution under the Plan, his Account Balance will earn interest annually under the provisions of Article 4.1, until Benefit Distribution.

ARTICLE 5  
PLAN BENEFIT PAYMENTS

- 5.1 A Participant's Account Balance will be paid to the Participant in a lump-sum payment at the time of Benefit Distribution, unless the Participant qualifies to receive benefit payments over a specific benefit payment period.
- 5.2 A Participant's Account Balance will earn interest under the provisions of Article 4.1 until the time of Benefit Distribution.
- 5.3 If a Participant is entitled to receive Plan benefit payments over a specific benefit payment period, his Account Balance at the commencement of Benefit Distribution will be credited with an amount equal to the interest such balance would have earned assuming distribution in equal monthly installments over the specific benefit payment period, at a specified interest rate, thereby creating a Benefit Account Balance. The Benefit Account Balance will then be paid to the Participant in equal monthly installments over the specific benefit payment period.





ARTICLE 6  
RETIREMENT BENEFIT PAYMENTS

- 6.1 A Participant who Retires from the Company qualifies to receive his Account Balance over a period of either 120, 180 or 240 months. The Committee will have complete discretion to determine the retirement benefit payment period that will be awarded to an individual Participant.
- 6.2 A Participant who Terminates Employment after attaining age 55 with less than ten (but more than five) Years of Service with the Company, may qualify to receive his Account Balance under the provisions of Article 6.1, if the Committee permits postponing Benefit Distribution under the provisions of Article 9.2.
- 6.3 The interest rate used to calculate the amount that will be credited to a Participant's Account Balance, to determine his Benefit Account Balance under the provisions of Article 5.3, will be 150 percent of the Moody's Composite Rate.

ARTICLE 7  
PRERETIREMENT SURVIVOR BENEFIT PAYMENTS

- 7.1 If a Participant dies while he is an employee of the Company, his Account Balance will be paid to his Beneficiary in a lump sum distribution at the time of Benefit Distribution or in equal monthly installments over the 180 month survivor benefit payment period. The Committee, in its sole discretion, will determine whether the Participant's Beneficiary will qualify for payment over the survivor benefit payment period.
- 7.2 If the Committee determines to pay the Beneficiary over the survivor benefit payment period, the interest rate used to determine the amount that will be credited to a Participant's Account Balance, to determine his Benefit Account Balance under the provisions of Article 5.3, will be the Moody's Composite Rate.

ARTICLE 8  
POSTRETIREMENT SURVIVOR BENEFIT PAYMENTS

- 8.1 If a Participant dies after the commencement of retirement or disability benefit payments under Articles 6 or 10 but prior to such benefits having been paid in full, the Participant's benefit payments will continue to be paid to the Participant's Beneficiary through the end of the originally awarded benefit payment period, except as provided for in Article 11.7.



- 8.2 If a Participant, who has been permitted by the Committee to postpone Benefit Distribution under the provisions of Article 9.2, dies after he Terminates Employment but prior to the commencement of benefit payments, his Beneficiary will commence receiving retirement benefit payment at the time the Participant would have qualified for such payments under the provisions of Article 6.2.

ARTICLE 9  
TERMINATION BENEFIT PAYMENTS

- 9.1 A Participant who Terminates Employment with the Company prior to Retirement will receive his Account Balance in a lump sum payment at Benefit Distribution, unless he is permitted by the Committee to postpone Benefit Distribution under the provisions of Article 9.2.
- 9.2 If a Participant Terminates Employment prior to completing ten (but more than five) Years of Service after attaining age 55, the Committee, in its sole discretion, may postpone Benefit Distribution until the date the Participant would have qualified to Retire under the provisions of the Plan.

ARTICLE 10  
DISABILITY BENEFIT PAYMENTS

- 10.1 A Participant shall be considered disabled if he qualifies for a disability benefit under the Company's group long-term disability plan. In the event a Participant does not qualify for benefits under the group long-term disability plan, the Committee, in its sole discretion, may determine that a Participant is disabled under the provisions of the Plan.
- 10.2 Notwithstanding the provisions of Article 4.3, Company contributions and interest earned on such contributions will be fully vested to the Participant at the time he is determined to be disabled under this Article.
- 10.3 If a Participant is disabled within the first five Years of Service with the Company, he will receive his Account Balance in a lump sum payment at Benefit Distribution.
- 10.4 If a Participant is disabled after five Years of Service with the Company, his Account Balance will be paid to him in equal monthly installments over the 180 month disability benefit payment period.
- 10.5 If a Participant qualifies to receive his Account Balance over the disability benefit payment period, the interest rate used to calculate the amount that will be credited to a Participant's Account Balance, to determine his Benefit Account Balance under the provisions of Article 5.3, will be 150 percent of the Moody's Composite Rate.



ARTICLE 11  
BENEFICIARIES

- 11.1 A Participant shall have the right to designate any person as his Beneficiary to whom benefits under this Plan shall be paid in the event of the Participant's death prior to the total distribution of his Benefit Account Balance under the Plan. If greater than 50 percent of the Benefit Account Balance is designated to a Beneficiary other than the Participant's spouse, such Beneficiary designation must be consented to by the Participant's spouse. Each Beneficiary designation must be in written form prescribed by the Committee and will be effective only when filed with the Committee during the Participant's lifetime.
- 11.2 A Participant shall have the right to change the Beneficiary designation, subject to spousal consent under the provisions of Article 11.1, without the consent of any designated Beneficiary by filing a new Beneficiary designation with the Committee. The filing of a new Beneficiary designation form will cancel all Beneficiary designations previously filed.
- 11.3 The Committee shall acknowledge, in writing, receipt of each Beneficiary designation form.
- 11.4 The Committee shall be entitled to rely on the Beneficiary designation last filed by the Participant prior to his death. Any payment made in accordance with such designation shall fully discharge the Company from all further obligations with respect to the amount of such payments.
- 11.5 If a Beneficiary entitled to receive benefits under the Plan is a minor or a person declared incompetent, the Committee may direct payment of such benefits to the guardian or legal representative of such minor or incompetent person. The Committee may require proof of incompetency, minority or guardianship as it may deem appropriate prior to distribution of any Plan benefits. Such distribution shall completely discharge the Committee and the Company from all liability with respect to such payments.
- 11.6 If no Beneficiary designation is in effect at the time of the Participant's death, or if the named Beneficiary predeceased the Participant, then the Beneficiary shall be: (1) the surviving spouse; (2) if there is no surviving spouse, then his issue per stirpes; or (3) if no surviving spouse or issue, then his estate.
- 11.7 If a Beneficiary receiving benefit payments under the provisions of Articles 7 or 8 of the Plan dies prior to the completion of the benefit payment period, the total of the remaining benefit payments will be paid, in a lump sum amount, to the contingent Beneficiary designated by the Participant under the provisions of Article 11.1.



If the Participant has failed to designate a contingent Beneficiary, the total of the remaining benefit payments will be paid, in lump sum amount, to the Beneficiary's estate.

ARTICLE 12  
LEAVE OF ABSENCE

- 12.1 If a Participant is authorized by the Company for any reason to take a paid leave of absence, the Participant's Deferral commitment shall remain in full force and effect.
- 12.2 If a Participant is authorized by the Company for any reason to take an unpaid leave of absence, the Participant's Deferral commitment shall be suspended until the leave of absence ends and the Participant's employment resumes.

ARTICLE 13  
EMPLOYER LIABILITY

- 13.1 Amounts payable to a Participant shall be paid exclusively from the general assets of the Company.
- 13.2 The Company shall have no obligation under the Plan to a Participant or a Participant's Beneficiary, except as provided in this Master Plan Document.
- 13.3 The Participant must cooperate with the Committee in furnishing all information requested by the Company to facilitate the payment of his Benefit Account Balance. Such information may include the results of a physical examination if any is required for participation in the Plan.

ARTICLE 14  
NO GUARANTEE OF CONTINUING EMPLOYMENT

- 14.1 The terms and conditions of this Plan shall not be deemed to constitute a contract of employment between the Company and a Participant. Moreover, nothing in the Plan shall be deemed to give a Participant the right to be retained in the service of the Company or to interfere with the right of the Company to discipline or discharge the Participant at any time.





ARTICLE 15  
TERMINATION, AMENDMENT OR MODIFICATION OF THE PLAN

- 15.1 The Board of Directors may at any time, without notice, amend the Plan in whole or in part provided, however, that no amendment shall be effective to decrease or restrict the amount of interest to be credited under the provisions of Article 4.1 on an Account Balance as of the date of such amendment.
- 15.2 The Board of Directors reserves the right to partially or completely terminate the Plan at any time and for any reason.
- 15.3 The Board of Directors may partially terminate the Plan by instructing the Committee not to accept any additional Deferral commitments. In the event of a partial termination, the remaining provisions of the Plan shall continue to operate and be effective for all Participants in the Plan, as of the date of such partial termination.
- 15.4 In the event that the Board of Directors completely terminates the Plan, the Plan shall cease to operate and the Committee shall pay out to each Participant his Account Balance, plus interest to be credited to the Account Balance, as of the date of the Plan's termination. The Committee, in its sole discretion, may either make a lump sum distribution at the time of Benefit Distribution or in equal monthly installments over the 60 month Plan termination benefit payment period. If the Committee determines to pay a Participant over the Plan termination benefit payment period, the interest rate used to calculate the amount that will be credited to a Participant's Account Balance, to determine his Benefit Account Balance under the provisions of Article 5.3, will be 150 percent of the Moody's Composite Rate.
- 15.5 In the event of a hostile or non-negotiated takeover of the Company, the benefits of this Plan will become 100 percent vested for all Participants and the interest credited to a Participant's Account Balance under any provision of this Plan will be adjusted based on 200 percent of the Moody's Rate.
- 15.6 Once benefits payments have commenced, termination of the Plan shall not terminate the rights of a Participant or his Beneficiary to continue to receive such payments. For all other Participants, the termination of the Plan will limit benefits under the Plan to those provided for in Article 15.4 herein.



ARTICLE 16  
RESTRICTIONS ON ALIENATION OF BENEFITS

- 16.1 To the maximum extent permitted by law, no interest or benefit under the Plan shall be assignable or subject in any manner to alienation, sale, transfer, claims of creditors, pledge, attachment or encumbrances of any kind.

ARTICLE 17  
ADMINISTRATION OF THE PLAN

- 17.1 The general administration of the Plan, as well as construction and interpretation thereof, shall be vested in the Committee. The number of members of the Committee shall be established by, and the members shall be appointed from time to time by, and shall serve at the pleasure of, the Board of Directors of the Company.
- 17.2 Subject to the Plan, the Committee shall from time to time establish rules, forms and procedures for the administration of the Plan. Except as otherwise expressly provided, the Committee shall have the exclusive right to interpret the Plan and to decide any and all matters arising thereunder. The Committee's decisions shall be conclusive and binding upon all persons having or claiming to have any right or interest under the Plan.
- 17.3 The Committee may employ such consultants, advisors and managers as it deems necessary or useful in carrying out its duties.
- 17.4 No member of the Committee shall be liable for any act or omission of any other member of the Committee, nor for any act or omission on his own part, excepting his own willful misconduct. The Company shall indemnify and save harmless each member of the Committee against any and all expenses and liabilities arising out of his membership on the Committee, with the exception of expenses and liabilities arising out of his own willful misconduct.
- 17.5 To enable the Committee to perform its functions, the Company shall supply full and timely information to the Committee on all matters relating to the compensation of all Participants, their retirement, death or other cause for termination of employment, and such other pertinent facts as the Committee may require.
- 17.6 The Committee shall have the power, in its sole discretion, to change the manner and time of payments to be made to a Participant or Beneficiary from that set forth herein, if requested to do so by such Participant or Beneficiary.



ARTICLE 18  
MISCELLANEOUS

18.1 Any notice given under the Plan shall be in writing and shall be mailed or delivered to:

SOUTHWEST GAS CORPORATION  
Executive Deferral Plan  
Administrative Committee  
5241 Spring Mountain Road  
Las Vegas, NV 89102

18.2 The Plan shall be binding upon the Company and its respective successors, and upon a Participant, Participant's Beneficiary, assigns, heirs, executors and administrators.

18.3 The Plan shall be governed by and construed under the laws of the State of Nevada.

18.4 Headings in this Master Plan Document are inserted for convenience of reference only. Any conflict between such headings and the text shall be resolved in favor of the text.

18.5 Masculine pronouns wherever used shall include feminine pronouns and when the context dictates, the singular shall include the plural.

18.6 In case any provision of the Plan shall be held illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but the Plan shall be construed and enforced as if such illegal and invalid provisions had never been inserted herein.

IN WITNESS WHEREOF, the Company has executed this Master Plan Document this 13th day of May, 1994.

SOUTHWEST GAS CORPORATION

By \_\_\_\_\_ /s/ Michael O. Maffie

Its President/Chief Executive Officer  
\_\_\_\_\_

SOUTHWEST GAS CORPORATION

SUPPLEMENTAL RETIREMENT PLAN

Effective October 7, 1980

Amended March 1, 1986

Amended December 7, 1987

Amended and Restated Effective January 1, 1989

Amended January 1, 1990

Amended and Restated Effective March 5, 1991

Amended and Restated Effective March 2, 1993

Amended and Restated Effective May 10, 1994





## SOUTHWEST GAS CORPORATION

## SUPPLEMENTAL RETIREMENT PLAN

## PURPOSE

The principal objective of this Supplemental Retirement Plan (Plan) is to ensure that a competitive level of retirement income is paid in order to attract, retain, and motivate officers of the Company. The Plan is designed to provide a benefit which, when added to an officer's other retirement income, will meet that objective. All elected officers of the Company are Participants in the Plan, subject to meeting the eligibility requirements for retirement under the Plan.

The Plan is also designed to eliminate reductions in benefits under the Basic Plan for those employees who have participated in the Company's Executive Deferral Plan and do not qualify for the full scope of benefits under the Plan.

The original Plan was effective on October 7, 1980, and as restated or amended, is effective with respect to each Participant starting on the effective date of election to officer status or selection for Executive Deferral Plan participation by the Board of Directors of Southwest Gas Corporation.

## I. DEFINITION AND CONSTRUCTION OF TERMS

- 1.1 Definitions. For purposes of the Plan, the following words and phrases will have the meanings stated below unless a different meaning is clearly required by the context. In the event there is a conflict in the meaning of any defined terms used in this Plan because of the reference to the Basic Plan, the definition contained in the Basic Plan shall prevail.
- (1) "Affiliate" means any corporation, partnership, or other organization which, during any period of a Participant's employment, was at least 50 percent controlled by the Company or an affiliate of the Company.
  - (2) "Average Earnings" means the 12-month average of the highest consecutive 36-months of Earnings with the Company.
  - (3) "Basic Plan" means the defined benefit plans of Southwest Gas Corporation and/or PriMerit Bank.



- (4) "Basic Plan Benefits" means the amount of benefit payable from the Basic Plan to a Participant as if the form of a straight life annuity was selected by the Participant.
- (5) "Board of Directors" means the Board of Directors of Southwest Gas Corporation.
- (6) "Committee" means the Nominating and Compensation Committee of the Board of Directors, to which the Board of Directors has given the authority to administer this Plan.
- (7) "Company" means Southwest Gas Corporation and such of its Affiliates as the Board of Directors may select to become parties to the Plan.
- (8) "Continuous Service" means a Participant's Continuous Service with the Company, as defined in the Basic Plan.
- (9) "Earnings" means the yearly compensation paid to a Participant, including salary deferrals, but excluding bonuses, commissions, overtime, and nonmonetary awards for employment services to the Company.
- (10) "Eligible Spouse" means the surviving spouse of a Participant as defined in the Basic Plan.
- (11) "Participant" means an officer, including a Senior Officer, of the Company and any participant in the Company's Executive Deferral Plan.
- (12) "Plan" means the Company's Supplemental Retirement Plan.
- (13) "Retirement" means the termination of a Participant's employment with the Company under the provisions of Sections II and VI.
- (14) "Senior Officer" means an officer of the Company with the title "Senior Vice President" or above.

1.2 Construction of Terms. The masculine gender appearing in the Plan will be deemed to include the feminine gender, and the singular may include the plural, unless the context clearly indicates the contrary.

## II. ELIGIBILITY FOR PARTICIPATION AND BENEFITS

2.1 An individual shall become a Participant in the Plan as of the effective date of his election by the Board of Directors as an officer of the Company or the effective date of his selection to participate in the Company's Executive Deferral Plan.



- 2.2 A Participant with 20 or more years of Continuous Service with the Company is eligible to retire and receive benefits under the Plan after attaining age 55.
- 2.3 A Senior Officer with 10 or more years of Continuous Service with the Company is eligible to retire and receive a benefit under this Plan after attaining age 65.
- 2.4 A Participant who is vested under the Basic Plan, but who fails to satisfy the requirements of Sections 2.2 or 2.3 of this Section, is eligible to receive benefits only under the provisions of Section 3.3 of the Plan.
- 2.5 Anything herein to the contrary notwithstanding, if a Participant who is receiving, or may be entitled to receive, a benefit hereunder engages in competition with the Company (without the Committee's prior authorization in writing), or is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Company, payments thereafter payable hereunder to such Participant or such Participant's Eligible Spouse will, at the Board of Directors' discretion, be forfeited and the Company will have no further obligation to such Participant or Eligible Spouse.

### III. AMOUNT AND FORM OF RETIREMENT BENEFIT

- 3.1 The annual retirement benefit payable will be 50 percent (60 percent for Senior Officers) of the Participant's Average Earnings with the Company, less any Basic Plan Benefits payable under the Basic Plan.
- 3.2 If a Participant qualifies for benefits under Section 2.2 of the Plan and retires before age 60, the benefits he receives under the provisions of Section 3.1 of this Section will be reduced in the same manner as the benefits under the Basic Plan are adjusted for early retirement.
- 3.3 The annual retirement benefit payable to a Participant who only satisfies the provisions of Section 2.4 of the Plan will be the benefit payable under the Basic Plan as if Effective Earnings, as defined in the Basic Plan, includes compensation deferred under the Company's Executive Deferral Plan (but not any incentive or bonus award) and without regard to any statutory limitation on the compensation that can be considered under the Basic Plan, less any benefit payable under the Basic Plan.
- 3.4 The benefits determined under this Plan will be payable in the form of a straight life annuity except as Section V otherwise provides.



## IV. PAYMENT OF RETIREMENT BENEFITS

- 4.1 One-twelfth of the annual benefit determined in accordance with Section III will be payable beginning on the first day of the month following the date the Participant is eligible to retire and has retired. Benefits will continue to be paid on the first day of each succeeding month. The last benefit payment will be paid on the first day of the month in which the retired Participant dies unless otherwise provided in accordance with Section V of the Plan.

## V. DEATH BENEFITS PAYABLE

- 5.1 If a Participant should die before retirement and after becoming eligible for retirement as provided for in Sections 2.2 and 2.3 of the Plan, the Eligible Spouse will receive a benefit equal to 50 percent of the amount of the Participant's benefit under the Plan, determined in accordance with Section III as if the Participant had retired and begun receiving a benefit in accordance with Section IV of the Plan on the first of the month before the date of his death.
- 5.2 If a Participant should die after retirement benefits under Section 3.1 of the Plan have begun, the Participant's Eligible Spouse will receive a benefit equal to 50 percent of the benefit the Participant was receiving under the Plan.
- 5.3 If a Participant should die before becoming eligible for retirement as provided for in Sections 2.2 and 2.3 of the Plan, any benefits available to the Eligible Spouse under the Basic Plan will be determined using Effective Earnings as defined in Section 3.3 of the Plan.
- 5.4 If a disabled Participant should die while receiving benefits in accordance with Section VI of the Plan, such Participant's Eligible Spouse will receive a benefit equal to 50 percent of the benefit the Participant was receiving under the Plan.
- 5.5 If an Eligible Spouse is under age 50 and is more than 5 years younger than the Participant, the Eligible Spouse's benefit described in this section, except as provided for in Section 5.3 of this Section, will be reduced by 2 percent for each year over 5 by which such Eligible Spouse is younger than the Participant.
- 5.6 Eligible Spouse's benefits described herein will commence on the first day of the month following the Participant's death and continue on the first of each succeeding month, ending on the first day of the month in which the Eligible Spouse dies. No benefits under this Plan will be payable thereafter.





- 5.7 If, on the date of his death, a Participant has no Eligible Spouse, no further benefits are payable under this Plan.

#### VI. DISABILITY BENEFITS PAYABLE

- 6.1 Notwithstanding the provisions of Sections 2.2 or 2.3 of the Plan, if the Committee determines that a Participant has become totally disabled before attaining age 65, the Participant shall be entitled to retire and receive a benefit under this Plan.
- 6.2 The annual disability benefit will be 50 percent (60 percent for Senior Officers) of the Participant's Average Earnings with the Company, less any benefits payable under the Company's salary continuation and long-term disability plans, and any Basic Plan Benefits payable under the Basic Plan.
- 6.3 Disability benefits will be payable on the same basis as retirement benefits under Section IV of the Plan. The last payment will occur on the first of the month during which the disabled Participant either recovers, as determined solely by the Committee, or dies.
- 6.4 If a disabled Participant dies, a benefit will be paid to the Eligible Spouse as provided in Section 5.4 of the Plan.
- 6.5 The Committee may require, no more frequently than once in any calendar year, that a disabled Participant submit medical evidence of disability satisfactory to the Committee. The Committee will have sole discretion to discontinue a disability benefit after considering such evidence or lack thereof.
- 6.6 If a Participant is determined to no longer be disabled, the period of time he was disabled will be added to his Continuous Service with the Company for the purposes of determining further eligibility for benefits under the Plan.

#### VII. RIGHTS IN THE EVENT OF TERMINATION, SUSPENSION OR AMENDMENT

- 7.1 The Board of Directors may, at its sole discretion, terminate, suspend, or amend this Plan or by resolution reduce the eligibility requirements or increase the benefits for an individual Participant at any time or from time to time, in whole or in part. However, no termination, amendment or suspension of the Plan will affect or reduce the rights and benefits of the officers previously selected by the Board of Directors as Participants in the Plan, their Eligible Spouses' rights to receive death benefits in accordance with this Plan, or a retired Participant's right or the right of an Eligible Spouse to continue to receive a benefit in accordance with this Plan (as in effect on the date such Participant began to receive a benefit under this Plan).



## VIII. DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

- 8.1 The Committee shall administer the Plan and shall construe the Plan and determine all factual and nonfactual questions of interpretation or policy in a manner not inconsistent with this Plan. The Committee's construction or determination shall be final and binding on all parties. The Committee may correct any defect, supply any omission, or reconcile any inconsistency in the Plan's language. The Committee shall have all powers necessary or appropriate to accomplish the Committee's duties under this Plan.

The Committee's duties shall include duties allocated to it in the Plan and additional duties that include, but are not limited to, the following:

- (a) To determine all factual and nonfactual questions relating to the eligibility of Employees to participate in or remain a Participant hereunder, and whether an Employee, Eligible Spouse, or Participant is eligible for, and the amount of, Plan benefits;
- (b) To direct the Company with respect to the benefits to which any Participant shall be entitled hereunder;
- (c) To authorize the Company to administer all disbursements under the Plan;
- (d) To maintain all the necessary records for the administration of the Plan, except those maintained by the Company;
- (e) To interpret the provisions of the Plan and make such rules and regulations as the Committee deems necessary to administer the Plan;
- (f) To establish and administer a claims procedure;
- (g) To advise, counsel and assist any Participant regarding any rights, benefits or elections available under the Plan; and
- (h) To furnish to each Participant, to each Eligible Spouse, such information, notices and reports as may be required by law.

## IX. BENEFIT CLAIMS PROCEDURE

- 9.1 Any claim for benefits under the Plan shall be made in writing to the Committee. If such claim for benefits is wholly or partially denied, the Committee shall, within ninety (90) days after receipt of the claim, notify the Participant or Eligible Spouse of the denial of the claim. Such notice of denial (a) shall be in writing, (b) shall be written in a manner calculated to be



understood by the Participant or Eligible Spouse, and (c) shall contain (1) the specific reason or reasons for denial of the claim, (2) a specific reference to the pertinent Plan provisions upon which the denial is based, (3) a description of any additional material or information necessary to perfect the claim, along with an explanation of why such material or information is necessary, and (4) an explanation of the claim review procedure. The ninety day period may, under special circumstances, be extended up to an additional ninety days upon written notice of such extension to the claimant which notice shall specify the extraordinary circumstances and the extended date of the decision. Notice of extension must be given prior to expiration of the initial ninety day period. If no notice of decision is given within the periods specified above, the claim shall, on the last day of the notice period, be deemed to have been denied and the Participant may file a request for review as provided in the next paragraph.

- 9.2 Within sixty (60) days after the receipt of the decision denying a claim (or the occurrence of the date that a claim is deemed denied) by the Participant or Eligible Spouse the Participant or Eligible Spouse may file a written request with the Committee that it conduct a full and fair review of the denial of the claim for benefits. The claimant or his duly authorized representative may review pertinent documents and submit issues and comments in writing to the Committee in connection with the review.
- 9.3 The Committee shall deliver to the Participant or Eligible Spouse a written decision on the review of the denial within sixty (60) days after the receipt of the aforesaid request for review, except that if there are special circumstances (such as the need to hold a hearing, if necessary) which require an extension of time for processing, the aforesaid sixty (60) day period shall, upon written notice to the Participant or Eligible Spouse be extended an additional sixty (60) days. Such decision shall (a) be written in a manner calculated to be understood by the Participant or Eligible Spouse, (b) include the specific reason or reasons for the decision, and (c) contain a specific reference to the pertinent Plan provisions upon which the decision is based. If the decision on review is not delivered to the Participant or Eligible Spouse within the periods specified, the claim shall be considered denied on the last day of the review period.
- 9.4 Upon a Participant or Eligible Spouse filing a claim the Committee shall notify the party filing of the claim and review procedure including the time periods involved.



## X. MISCELLANEOUS

- 10.1 Nothing contained herein will confer on any Participant the right to be retained in the service of the Company, nor will it interfere with the Company's right to discharge or otherwise deal with the Company's right to discharge or otherwise deal with Participants without regard to the Plan's existence.
- 10.2 This Plan is unfunded and the Company will make Plan benefit payments solely on a current disbursement basis.
- 10.3 To the maximum extent permitted by law, no interest or benefit under this Plan shall be assignable or subject in any manner to alienation, sale, transfer, claims of creditors, pledge, attachment or encumbrances of any kind.
- 10.4 Each Participant will receive a copy of this Plan and the Committee will make available for any Participant's inspection a copy of the rules and regulations the Committee uses in administering the Plan.
- 10.5 This Plan is established under, and will be construed according to, the laws of the State of Nevada.

IN WITNESS WHEREOF, Southwest Gas Corporation has caused this Plan to be executed this 13th day of May, 1994.

SOUTHWEST GAS CORPORATION

By           /s/ Michael O. Maffie          

Its           President/Chief Executive Officer