

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

Form 10-Q

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

For the quarterly period ended June 30, 2007

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 by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.
Common Stock, \$1 Par Value, 42,408,116 shares as of August 1, 2007.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SOUTHWEST GAS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Thousands of dollars, except par value)

(Unaudited)

	JUNE 30, 2007	DECEMBER 31, 2006
ASSETS		
Utility plant:		
Gas plant	\$ 3,923,640	\$ 3,763,310
Less: accumulated depreciation	(1,221,636)	(1,175,600)
Acquisition adjustments, net	1,902	1,992
Construction work in progress	54,217	78,402
	<hr/>	<hr/>
Net utility plant	2,758,123	2,668,104
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Other property and investments	144,711	136,242
	<hr/>	<hr/>
Current assets:		
Cash and cash equivalents	20,744	18,786
Accounts receivable, net of allowances	141,600	225,928
Accrued utility revenue	33,100	73,300
Deferred purchased gas costs	50,284	77,007
Prepays and other current assets	62,327	106,603
	<hr/>	<hr/>
Total current assets	308,055	501,624
	<hr/>	<hr/>
Deferred charges and other assets	172,169	178,995
	<hr/>	<hr/>
Total assets	\$ 3,383,058	\$ 3,484,965
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CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock, \$1 par (authorized - 60,000,000 shares; issued and outstanding - 42,369,612 and 41,770,291 shares)	\$ 44,000	\$ 43,400
Additional paid-in capital	718,665	698,258
Accumulated other comprehensive income (loss), net	(13,177)	(13,666)
Retained earnings	204,626	173,433
	<hr/>	<hr/>
Total equity	954,114	901,425
Subordinated debentures due to Southwest Gas Capital II	100,000	100,000
Long-term debt, less current maturities	1,203,901	1,286,354
	<hr/>	<hr/>
Total capitalization	2,258,015	2,287,779
	<hr/>	<hr/>
Current liabilities:		
Current maturities of long-term debt	29,821	27,545
Accounts payable	107,932	265,739
Customer deposits	68,832	64,151
Income taxes payable	36,034	--
Accrued general taxes	40,156	45,895
Accrued interest	23,334	21,362
Deferred income taxes	9,901	15,471
Deferred purchased gas costs	33,200	--
Other current liabilities	75,238	55,901
	<hr/>	<hr/>
Total current liabilities	424,448	496,064
	<hr/>	<hr/>
Deferred income taxes and other credits:		
Deferred income taxes and investment tax credits	287,978	308,493
Taxes payable	4,485	5,951
Accumulated removal costs	135,000	125,000
Other deferred credits	273,132	261,678
	<hr/>	<hr/>
Total deferred income taxes and other credits	700,595	701,122
	<hr/>	<hr/>

Total capitalization and liabilities

\$ 3,383,058

\$ 3,484,965

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,	
	2007	2006	2007	2006	2007	2006
Operating revenues:						
Gas operating revenues	\$ 344,233	\$ 354,168	\$ 1,071,248	\$ 962,310	\$ 1,836,332	\$ 1,624,536
Construction revenues	82,304	76,734	149,005	145,533	300,836	293,580
Total operating revenues	426,537	430,902	1,220,253	1,107,843	2,137,168	1,918,116
Operating expenses:						
Net cost of gas sold	198,417	214,823	692,628	612,320	1,114,296	969,499
Operations and maintenance	83,090	76,883	167,625	155,270	333,158	320,474
Depreciation and amortization	45,455	41,957	90,077	82,636	176,405	161,827
Taxes other than income taxes	9,938	5,620	20,405	16,237	39,162	34,888
Construction expenses	71,992	66,383	130,985	126,819	260,993	254,003
Total operating expenses	408,892	405,666	1,101,720	993,282	1,924,014	1,740,691
Operating income	17,645	25,236	118,533	114,561	213,154	177,425
Other income and (expenses):						
Net interest deductions	(21,766)	(21,600)	(43,269)	(43,850)	(86,672)	(86,176)
Net interest deductions on subordinated debentures	(1,932)	(1,931)	(3,863)	(3,862)	(7,725)	(7,724)
Other income (deductions)	4,416	3,397	6,273	6,968	13,457	11,426
Total other income and (expenses)	(19,282)	(20,134)	(40,859)	(40,744)	(80,940)	(82,474)
Income (loss) before income taxes	(1,637)	5,102	77,674	73,817	132,214	94,951
Income tax expense (benefit)	(1,300)	1,393	28,247	25,928	46,816	33,251
Net income (loss)	\$ (337)	\$ 3,709	\$ 49,427	\$ 47,889	\$ 85,398	\$ 61,700
Basic earnings (loss) per share	\$ (0.01)	\$ 0.09	\$ 1.17	\$ 1.20	\$ 2.05	\$ 1.57
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.09	\$ 1.16	\$ 1.19	\$ 2.03	\$ 1.55
Dividends declared per share	\$ 0.215	\$ 0.205	\$ 0.43	\$ 0.41	\$ 0.84	\$ 0.82
Average number of common shares outstanding	42,226	40,174	42,103	39,835	41,691	39,339
Average shares outstanding (assuming dilution)	--	40,541	42,516	40,196	42,126	39,704

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,	
	2007	2006	2007	2006
CASH FLOW FROM OPERATING ACTIVITIES:				
Net income	\$ 49,427	\$ 47,889	\$ 85,398	\$ 61,700
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	90,077	82,636	176,405	161,827
Deferred income taxes	(26,385)	(8,544)	(13,932)	(25,563)
Changes in current assets and liabilities:				
Accounts receivable, net of allowances	84,328	67,604	(11,123)	(18,369)
Accrued utility revenue	40,200	35,200	100	(800)
Deferred purchased gas costs	59,923	20,472	71,859	(30,823)
Accounts payable	(157,807)	(176,774)	25,230	3,582
Accrued taxes	29,400	19,658	12,940	23,072
Other current assets and liabilities	69,544	87,919	5,781	28,991
Other	(2,869)	(6,276)	(5,250)	13,746
Net cash provided by operating activities	235,838	169,784	347,408	217,363
CASH FLOW FROM INVESTING ACTIVITIES:				
Construction expenditures and property additions	(174,083)	(150,791)	(368,617)	(324,000)
Other	17,521	19,587	31,133	26,153
Net cash used in investing activities	(156,562)	(131,204)	(337,484)	(297,847)
CASH FLOW FROM FINANCING ACTIVITIES:				
Issuance of common stock, net	21,007	37,320	56,139	65,896
Dividends paid	(17,688)	(16,321)	(34,867)	(32,219)
Issuance of long-term debt, net	66,952	35,836	123,516	167,799
Retirement of long-term debt	(55,589)	(4,448)	(135,538)	(33,141)
Temporary changes in long-term debt	(92,000)	(88,000)	(7,000)	(88,000)
Change in short-term debt	--	(24,000)	--	--
Net cash provided by (used in) financing activities	(77,318)	(59,613)	2,250	80,335
Change in cash and cash equivalents	1,958	(21,033)	12,174	(149)
Cash at beginning of period	18,786	29,603	8,570	8,719
Cash at end of period	\$ 20,744	\$ 8,570	\$ 20,744	\$ 8,570
Supplemental information:				
Interest paid, net of amounts capitalized	\$ 43,705	\$ 45,768	\$ 90,470	\$ 89,029
Income taxes paid (received), net	17,994	12,537	45,139	17,689

The accompanying notes are an integral part of these statements.

Note 1 – Nature of Operations and Basis of Presentation

Nature of Operations. Southwest Gas Corporation (the “Company”) is composed of two segments: natural gas operations (“Southwest” or the “natural gas operations” segment) and construction services. Southwest is engaged in the business of purchasing, distributing, and transporting natural gas to customers in portions of Arizona, Nevada, and California. The public utility rates, practices, facilities, and service territories of Southwest are subject to regulatory oversight. The timing and amount of rate relief can materially impact results of operations. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year. Variability in weather from normal temperatures can materially impact results of operations. Natural gas purchases and the timing of related recoveries can materially impact liquidity. Northern Pipeline Construction Co. (“NPL” or the “construction services” segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

Basis of Presentation. The condensed consolidated financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to such rules and regulations. The preparation of the condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring items and estimates necessary for a fair presentation of the results for the interim periods, have been made. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the 2006 Annual Report to Shareholders, which is incorporated by reference into the 2006 Form 10-K, and the first quarter 2007 Form 10-Q.

Intercompany Transactions. NPL recognizes revenues generated from contracts with Southwest (see **Note 3** below). Accounts receivable for these services were \$8 million at June 30, 2007 and \$9.2 million at December 31, 2006. The accounts receivable balance, revenues, and associated profits are included in the condensed consolidated financial statements of the Company and were not eliminated during consolidation in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 71, “Accounting for the Effects of Certain Types of Regulation.”

Note 2 – Components of Net Periodic Benefit Cost

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

	Qualified Retirement Plan					
	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2007	2006	2007	2006	2007	2006
(Thousands of dollars)						
Service cost	\$ 4,122	\$ 4,071	\$ 8,245	\$ 8,142	\$ 16,387	\$ 16,035
Interest cost	7,311	6,701	14,622	13,402	28,025	26,065
Expected return on plan assets	(8,258)	(7,652)	(16,516)	(15,304)	(31,820)	(30,081)
Amortization of prior service credits	(3)	(3)	(5)	(6)	(10)	(11)
Amortization of net loss	1,252	1,338	2,503	2,676	5,179	3,903
Net periodic benefit cost	<u>\$ 4,424</u>	<u>\$ 4,455</u>	<u>\$ 8,849</u>	<u>\$ 8,910</u>	<u>\$ 17,761</u>	<u>\$ 15,911</u>

	SERP					
	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2007	2006	2007	2006	2007	2006
(Thousands of dollars)						
Service cost	\$ 38	\$ 53	\$ 77	\$ 105	\$ 183	\$ 217
Interest cost	487	473	974	947	1,920	1,853
Amortization of prior service costs	--	2	--	5	4	63
Amortization of net loss	283	311	565	622	1,187	1,078
Net periodic benefit cost	<u>\$ 808</u>	<u>\$ 839</u>	<u>\$ 1,616</u>	<u>\$ 1,679</u>	<u>\$ 3,294</u>	<u>\$ 3,211</u>

	PBOP					
	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2007	2006	2007	2006	2007	2006
(Thousands of dollars)						
Service cost	\$ 203	\$ 214	\$ 405	\$ 427	\$ 832	\$ 846
Interest cost	576	529	1,152	1,059	2,211	2,116
Expected return on plan assets	(536)	(454)	(1,072)	(908)	(1,981)	(1,745)
Amortization of transition obligation	217	217	434	434	867	867
Amortization of net loss	14	42	29	84	113	152
Net periodic benefit cost	<u>\$ 474</u>	<u>\$ 548</u>	<u>\$ 948</u>	<u>\$ 1,096</u>	<u>\$ 2,042</u>	<u>\$ 2,236</u>

Note 3 – Segment Information

The following tables list revenues from external customers, intersegment revenues, and segment net income (thousands of dollars):

	Natural Gas Operations	Construction Services	Total
Three months ended June 30, 2007			
Revenues from external customers	\$ 344,233	\$ 65,947	\$ 410,180
Intersegment revenues	--	16,357	16,357
Total	<u>\$ 344,233</u>	<u>\$ 82,304</u>	<u>\$ 426,537</u>
Segment net income (loss)	<u>\$ (2,855)</u>	<u>\$ 2,518</u>	<u>\$ (337)</u>
Three months ended June 30, 2006			
Revenues from external customers	\$ 354,168	\$ 57,277	\$ 411,445
Intersegment revenues	--	19,457	19,457
Total	<u>\$ 354,168</u>	<u>\$ 76,734</u>	<u>\$ 430,902</u>
Segment net income	<u>\$ 9</u>	<u>\$ 3,700</u>	<u>\$ 3,709</u>
Six months ended June 30, 2007			
Revenues from external customers	\$ 1,071,248	\$ 115,157	\$ 1,186,405
Intersegment revenues	--	33,848	33,848
Total	<u>\$ 1,071,248</u>	<u>\$ 149,005</u>	<u>\$ 1,220,253</u>
Segment net income	<u>\$ 45,773</u>	<u>\$ 3,654</u>	<u>\$ 49,427</u>
Six months ended June 30, 2006			
Revenues from external customers	\$ 962,310	\$ 106,773	\$ 1,069,083
Intersegment revenues	--	38,760	38,760
Total	<u>\$ 962,310</u>	<u>\$ 145,533</u>	<u>\$ 1,107,843</u>
Segment net income	<u>\$ 42,086</u>	<u>\$ 5,803</u>	<u>\$ 47,889</u>
Twelve months ended June 30, 2007			
Revenues from external customers	\$ 1,836,332	\$ 225,137	\$ 2,061,469
Intersegment revenues	--	75,699	75,699
Total	<u>\$ 1,836,332</u>	<u>\$ 300,836</u>	<u>\$ 2,137,168</u>
Segment net income	<u>\$ 75,160</u>	<u>\$ 10,238</u>	<u>\$ 85,398</u>
Twelve months ended June 30, 2006			
Revenues from external customers	\$ 1,624,536	\$ 214,536	\$ 1,839,072
Intersegment revenues	--	79,044	79,044
Total	<u>\$ 1,624,536</u>	<u>\$ 293,580</u>	<u>\$ 1,918,116</u>
Segment net income	<u>\$ 48,732</u>	<u>\$ 12,968</u>	<u>\$ 61,700</u>

Note 4 – Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2007	2006	2007	2006	2007	2006
	(Thousands of dollars)					
Net income (loss)	\$ (337)	\$ 3,709	\$ 49,427	\$ 47,889	\$ 85,398	\$ 61,700
Additional minimum pension liability adjustment, net of \$20.3 million tax expense and \$19 million tax benefit	--	--	--	--	33,047	(30,753)
Amortization of unamortized benefit plan cost, net of \$150,000, \$300,000, and \$300,000 tax expense	245	--	489	--	489	--
Comprehensive income (loss)	\$ (92)	\$ 3,709	\$ 49,916	\$ 47,889	\$ 118,934	\$ 30,947

The additional minimum pension liability adjustments noted above resulted from the measurement of pension obligations at December 31, 2006 and 2005. Under the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", which were adopted on December 31, 2006, the Company no longer records an adjustment to the additional minimum pension liability in comprehensive income (loss). Total accumulated other comprehensive loss as of June 30, 2007 was \$13.2 million, net of \$8.1 million of tax, and was composed entirely of unamortized benefit plan costs.

Note 5 – Common Stock

During the six months ended June 30, 2007, the Company issued approximately 599,000 shares of common stock through the Dividend Reinvestment and Stock Purchase Plan ("DRSPP"), Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan. No shares were issued through the Equity Shelf Program during the first and second quarters of 2007.

In May 2007, shareholders of the Company approved an increase in the number of authorized shares of common stock from 45,000,000 shares to 60,000,000 shares. The increase had no effect on the par value of common stock.

Note 6 – Income Taxes

The Company adopted the provisions of FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes", on January 1, 2007. The adoption of the standard had no impact on the Company's financial position or results of operations. In connection with the adoption, the Company identified \$1.4 million in liabilities related to unrecognized tax benefits, which, if recognized, would favorably impact the effective tax rate. The Company also identified \$1.3 million of accrued interest related to uncertain tax positions. Both the liabilities related to the unrecognized tax benefits and interest were recorded as of December 31, 2006. In the second quarter of 2007, the Company made income tax payments to the IRS for tax and accrued interest related to the uncertain tax positions. There was no change to the balance of unrecognized tax benefits during the second quarter of 2007 and the Company does not expect a material change in the next twelve months. The Company recognizes interest and penalties related to income tax matters in income tax expense.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states. The Company is no longer subject to U.S. federal examinations by tax authorities for years before 2001, and is no longer subject to state examinations for years before 2002. In the fourth quarter of 2006, the Internal Revenue Service ("IRS") completed its examination of the Company's U.S. income tax returns for 2001 through 2004. As of June 30, 2007, the IRS had proposed certain timing-related adjustments to the Company's tax returns as filed. Management has appealed the proposed assessment but has not resolved the issues as of June 30, 2007. The Company does not anticipate the adjustments would result in a material change to its financial position or results of operations.

Note 7 – Credit Facility

In April 2007, the Company amended its \$300 million credit facility. The facility was previously scheduled to expire in April 2011 and was extended to April 2012. The Company will continue to use \$150 million of the facility as long-term debt and the remaining \$150 million for working capital purposes. Interest rates for the facility are calculated at either the London Interbank Offering Rate plus an applicable margin, or the greater of the prime rate or one-half of one percent plus the Federal Funds rate.

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

The following discussion of Southwest Gas Corporation and subsidiaries (the "Company") includes information related to the Company's two business segments: natural gas operations ("Southwest" or the "natural gas operations" segment) and construction services. Southwest is engaged in the business of purchasing, distributing, and transporting natural gas in portions of Arizona, Nevada, and California. Southwest is the largest distributor in Arizona, selling and transporting natural gas in most of central and southern Arizona, including the Phoenix and Tucson metropolitan areas. Southwest is also the largest distributor of natural gas in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, Southwest distributes and transports natural gas in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County.

Northern Pipeline Construction Co. ("NPL" or the "construction services" segment), a wholly owned subsidiary, is a full-service underground piping contractor that provides utility companies with trenching and installation, replacement, and maintenance services for energy distribution systems.

This Management's Discussion and Analysis ("MD&A") of Financial Condition and Results of Operations should be read in conjunction with the consolidated financial statements and the notes thereto, as well as the MD&A, included in the 2006 Annual Report to Shareholders, which is incorporated by reference into the 2006 Form 10-K, and the first quarter 2007 Form 10-Q.

Executive Summary

The items discussed in this Executive Summary are intended to provide an overview of the results of the Company's operations. As needed, certain items are covered in greater detail in later sections of management's discussion and analysis. As reflected in the table below, the natural gas operations segment accounted for an average of 84 percent of twelve-month-to-date consolidated net income over the past two years. As such, management's discussion and analysis is primarily focused on that segment. Natural gas sales are seasonal, peaking during the winter months; therefore, results of operations for interim periods are not necessarily indicative of the results for a full year.

Summary Operating Results

	Period Ended June 30,					
	Three Months		Six Months		Twelve Months	
	2007	2006	2007	2006	2007	2006
	(Thousands of dollars, except per share amounts)					
<u>Contribution to net income (loss)</u>						
Natural gas operations	\$ (2,855)	\$ 9	\$ 45,773	\$ 42,086	\$ 75,160	\$ 48,732
Construction services	2,518	3,700	3,654	5,803	10,238	12,968
Net income (loss)	<u>\$ (337)</u>	<u>\$ 3,709</u>	<u>\$ 49,427</u>	<u>\$ 47,889</u>	<u>\$ 85,398</u>	<u>\$ 61,700</u>
<u>Basic earnings (loss) per share</u>						
Natural gas operations	\$ (0.07)	\$ --	\$ 1.09	\$ 1.06	\$ 1.80	\$ 1.24
Construction services	0.06	0.09	0.08	0.14	0.25	0.33
Consolidated	<u>\$ (0.01)</u>	<u>\$ 0.09</u>	<u>\$ 1.17</u>	<u>\$ 1.20</u>	<u>\$ 2.05</u>	<u>\$ 1.57</u>
<u>Natural Gas Operations</u>						
Operating margin	<u>\$ 145,816</u>	<u>\$ 139,345</u>	<u>\$ 378,620</u>	<u>\$ 349,990</u>	<u>\$ 722,036</u>	<u>\$ 655,037</u>

The decrease in consolidated results of operations during the second quarter of 2007 was due primarily to the following factors:

- a favorable nonrecurring property tax settlement recognized in the second quarter of 2006;
- a decrease in contribution from NPL;
- an increase in operating expenses due to general cost increases and employee-related costs; and
- a 2.1 million increase in average shares outstanding between the second quarter of 2007 and 2006.

Partially offsetting the above negative factors was a \$6.5 million increase in operating margin due to a combination of rate relief in California (including changes in the margin tracking mechanism) and continued customer growth.

Principal Factors Affecting Operating Margin

Southwest's operating revenues are recognized from the distribution and transportation of natural gas (and related services) to customers. Operating margin is the measure of gas operating revenues less the net cost of gas sold. Management uses operating margin as a main benchmark in comparing operating results from period to period. The three principal factors affecting operating margin are general rate relief, weather, and customer growth.

General Rate Relief. In the fourth quarter of 2006, the California Public Utilities Commission ("CPUC") approved the Company's 2007 attrition year filing, granting annualized rate relief of \$2.7 million, effective January 2007. In connection with this filing, the Company also received approval to recognize margin equally throughout the year under its margin tracker mechanism, rather than on a seasonally adjusted basis. This change does not impact the total amount of margin recognized annually; however it does affect the comparability of 2007 versus 2006 quarterly amounts. During the second quarter of 2007, rate changes in California provided a \$3 million increase in operating margin including an increase of \$2 million due to the effect of the equalized margin tracker mechanism. Southwest is currently preparing its 2008 attrition and 2009 general rate case filings in California, which are expected to be filed in the fourth quarter of 2007. The Company is also analyzing its need for a general rate case in Arizona, which if warranted, would be anticipated to be filed in the second half of 2007.

Weather. Weather is a significant driver of natural gas volumes used by residential and small commercial customers and is the main reason for volatility in margin. Space heating-related volumes are the primary component of billings for these customer classes and are concentrated in the months of November to April for the majority of the Company's customers. Variances in temperatures from normal levels, especially in Arizona where rates remain leveraged, have a significant impact on the margin and associated net income of the Company. Warmer-than-normal temperatures were experienced during the second quarters of both 2007 and 2006, but had no incremental impact on margin between quarters.

Customer Growth. As of June 30, 2007, Southwest had 1,800,000 residential, commercial, industrial, and other natural gas customers, of which 54 percent were located in Arizona, 36 percent in Nevada, and 10 percent in California. Residential and commercial customers represented over 99 percent of the total customer base. During the twelve months ended June 30, 2007, Southwest earned 56 percent of operating margin in Arizona, 35 percent in Nevada, and 9 percent in California. During this same period, Southwest earned 86 percent of operating margin from residential and small commercial customers, 5 percent from other sales customers, and 9 percent from transportation customers. These general patterns are expected to continue.

The record customer growth levels experienced in recent years have moderated. During the twelve months ended June 30, 2007, Southwest added 57,000 customers, a three percent increase, attributable mainly to population growth in its service areas. Management expects this more moderate growth level will continue throughout the second half of 2007.

Incremental margin (\$4 million in the second quarter of 2007) has accompanied customer growth, but the costs associated with creating and maintaining the infrastructure needed to accommodate new customers have also been significant. The timing of including these costs in rates is often delayed (regulatory lag) and can result in a reduction of current-period earnings.

Management has attempted to mitigate the regulatory lag associated with growth by collecting contributions and advances

from home builders and by effectively utilizing technology to minimize incremental staffing levels. During the quarter, six months, and twelve months ended June 30, 2007, Southwest partially offset capital outlays by collecting approximately \$12 million, \$25 million, and \$47 million, respectively, in net advances and contributions from customers and third-party contractors.

In recent years, Southwest initiated a project to expand its use of electronic meter reading technology. Use of this technology has reduced the time associated with obtaining monthly meter readings, while improving their accuracy. By June 30, 2007, approximately 64 percent of Southwest customers' meters were being read electronically. The project is expected to be completed in 2009 with no adverse impact to existing employees, although some experienced employees have been redeployed to expand service and construction capabilities.

The results of the natural gas operations segment and the overall results of the Company are heavily dependent upon the three components noted previously (general rate relief, weather, and customer growth). Significant changes in these components (primarily weather) have contributed to somewhat volatile earnings historically. Management continues to work with its regulatory commissions in designing rate structures that strive to provide affordable and reliable service to its customers while mitigating the volatility in prices to customers and stabilizing returns to investors. Such a rate structure is in place in California and progress has been made in Nevada. Southwest continues to pursue rate design changes in Arizona.

Cash Flows

Southwest's operating cash flows for the six and twelve months ended June 30, 2007 improved significantly over the corresponding periods of 2006. Primary drivers of the improvement include earnings growth and collections of previously deferred PGA balances. Cash flows from operating activities of Southwest (net of dividends paid) provided \$285 million (representing 85 percent) of the required capital resources pertaining to capital expenditures for the twelve months ended June 30, 2007. The remainder was provided from construction advances, external financing activities, and existing credit facilities. During the three-year period ending December 31, 2009, cash flows from gas segment operating activities (net of dividends) are expected to fund approximately 90 percent of the gas operations construction expenditures, assuming continued timely recovery of current and future deferred PGA balances.

Results of Construction Services Operations

NPL's contribution to consolidated net income decreased by \$1.2 million in the second quarter of 2007 when compared to the record second quarter results of the prior year. The decrease was primarily due to lower profit margins on blanket contracts in the majority of NPL's operating areas resulting from the general slow down in the housing market.

Results of Natural Gas Operations

Quarterly Analysis

	Three Months Ended June 30,	
	2007	2006
	(Thousands of dollars)	
Gas operating revenues	\$ 344,233	\$ 354,168
Net cost of gas sold	198,417	214,823
Operating margin	145,816	139,345
Operations and maintenance expense	83,090	76,883
Depreciation and amortization	39,076	36,563
Taxes other than income taxes	9,938	5,620
Operating income	13,712	20,279
Other income (expense)	3,648	1,929
Net interest deductions	21,315	21,252
Net interest deductions on subordinated debentures	1,932	1,931
Income (loss) before income taxes	(5,887)	(975)
Income tax expense (benefit)	(3,032)	(984)
Contribution to consolidated net income (loss)	\$ (2,855)	\$ 9

Contribution from natural gas operations decreased \$2.9 million in the second quarter of 2007 compared to the same period a year ago. The decrease in contribution was primarily caused by higher operating expenses, partially offset by increased operating margin and other income. Results during the second quarter of 2006 reflect the impact of a favorable nonrecurring property tax settlement.

Operating margin increased \$6.5 million, or five percent, in the second quarter of 2007 compared to the second quarter of 2006. Rate changes resulted in a \$3 million increase in operating margin compared to the prior year (consisting of \$1 million in California attrition amounts and a \$2 million increase from implementing a California equalized margin tracker mechanism, effective January 2007). New customers accounted for the remaining incremental operating margin during the quarter as the Company added 57,000 customers during the last twelve months, an increase of three percent. Warmer-than-normal temperatures were experienced during both quarters, but had no incremental impact between quarters.

Operations and maintenance expense increased \$6.2 million, or eight percent, primarily due to general cost increases and incremental costs associated with providing service to a growing customer base. Additional factors contributing to the increase include higher uncollectible and employee-related costs.

Depreciation expense increased \$2.5 million, or seven percent, as a result of construction activities. Average gas plant in service for the current period increased \$287 million, or eight percent, compared to the corresponding period a year ago. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

General taxes increased \$4.3 million primarily due to the favorable nonrecurring property tax settlement recognized in April 2006.

Other income (expense) increased \$1.7 million during the second quarter of 2007 compared to the same period in 2006, primarily due to increased returns on long-term investments. The second quarter of 2006 included \$948,000 in interest income related to the nonrecurring property tax settlement.

Net financing costs were relatively unchanged between periods as strong operating cash flows, collection of construction advances, and common stock issuances mitigated the need for incremental borrowings to finance construction activities.

Six-Month Analysis

	Six Months Ended June 30,	
	2007	2006
	(Thousands of dollars)	
Gas operating revenues	\$ 1,071,248	\$ 962,310
Net cost of gas sold	692,628	612,320
Operating margin	378,620	349,990
Operations and maintenance expense	167,625	155,270
Depreciation and amortization	77,606	72,116
Taxes other than income taxes	20,405	16,237
Operating income	112,984	106,367
Other income (expense)	5,024	4,881
Net interest deductions	42,463	43,207
Net interest deductions on subordinated debentures	3,863	3,862
Income before income taxes	71,682	64,179
Income tax expense	25,909	22,093
Contribution to consolidated net income	\$ 45,773	\$ 42,086

Contribution from natural gas operations increased \$3.7 million in the first six months of 2007 compared to the same period a year ago. The increase was principally attributed to higher operating margin partially offset by higher operating expenses. The second quarter of 2006 included a favorable nonrecurring property tax settlement.

Operating margin increased approximately \$29 million, or eight percent, in the first six months of 2007 compared to the first six months of 2006. New customers contributed an incremental \$10 million in operating margin during the current period. Rate changes resulted in a net \$11 million increase in operating margin, consisting of \$15 million in Arizona general rate relief and \$2 million in California attrition amounts, offset by a \$6 million impact of implementing the California equalized margin tracker mechanism. Differences in heating demand primarily caused by weather variations between periods resulted in an \$8 million margin increase as the current period experienced near normal temperatures and the prior period was warmer-than-normal.

Operations and maintenance expense increased \$12.4 million, or eight percent, principally due to the impact of general cost increases and incremental costs associated with providing service to a growing customer base. Factors contributing to the increase included higher uncollectible expenses and employee-related costs.

Depreciation expense increased \$5.5 million, or eight percent, as a result of construction activities. Average gas plant in service increased \$273 million, or eight percent, as compared to the first six months of 2006. The increase reflects ongoing capital expenditures for the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

General taxes increased \$4.2 million primarily as a result of the favorable nonrecurring property tax settlement recognized in April 2006.

Net financing costs decreased \$743,000, or two percent, between periods, as strong operating cash flows, construction advances, and common stock issued under the Company's various plans were used to reduce average debt outstanding.

Income tax expense in the six months ended June 30, 2006 included a nonrecurring \$1.7 million state income tax benefit.

Twelve-Month Analysis

	Twelve Months Ended June 30,	
	2007	2006
	(Thousands of dollars)	
Gas operating revenues	\$ 1,836,332	\$ 1,624,536
Net cost of gas sold	1,114,296	969,499
Operating margin	722,036	655,037
Operations and maintenance expense	333,158	320,474
Depreciation and amortization	152,144	141,640
Taxes other than income taxes	39,162	34,888
Operating income	197,572	158,035
Other income (expense)	10,192	7,882
Net interest deductions	84,823	84,881
Net interest deductions on subordinated debentures	7,725	7,724
Income before income taxes	115,216	73,312
Income tax expense	40,056	24,580
Contribution to consolidated net income	\$ 75,160	\$ 48,732

Contribution to consolidated net income from natural gas operations increased \$26.4 million in the current twelve-month period compared to the same period a year ago. The improvement in contribution was primarily caused by higher operating margin and improved other income, partially offset by increased operating expenses.

Operating margin increased \$67 million between periods. Rate relief in Arizona and California added \$34 million (net of the California equalized margin tracker mechanism year-to-date decrease of \$6 million). Customer growth contributed an incremental \$19 million. Differences in heating demand, caused primarily by weather variations, accounted for a \$14 million increase in operating margin as warmer-than-normal temperatures were experienced during both periods (during the current twelve-month period the negative impact was \$7 million, while the negative impact during the prior twelve-month period was \$21 million).

Operations and maintenance expense increased \$12.7 million, or four percent, between periods reflecting general cost increases and incremental operating costs associated with serving additional customers. Additional factors included increases in uncollectible expenses and employee-related expenses. The prior period includes a \$10 million nonrecurring provision made in December 2005 for an injuries and damages case.

Depreciation expense increased \$10.5 million, or seven percent, as a result of additional plant in service. Average gas plant in service for the current twelve-month period increased \$257 million, or seven percent, compared to the corresponding period a year ago. This was attributable to the upgrade of existing operating facilities and the expansion of the system to accommodate continued customer growth.

General taxes increased \$4.3 million primarily as a result of the favorable nonrecurring property tax settlement recognized in April 2006.

Other income (expense) increased \$2.3 million in the current twelve-month period compared to the same period in 2006. The current period includes an increase in returns on long-term investments, and gains on dispositions of miscellaneous properties.

Net financing costs decreased slightly between periods due primarily to a reduction in average debt outstanding.

Income tax expense for the twelve months ended June 30, 2006 included a nonrecurring \$1.7 million state income tax benefit.

Results of Construction Services

Contribution to consolidated net income for the three, six, and twelve months ended June 30, 2007 decreased \$1.2 million, \$2.1 million, and \$2.7 million, respectively, when compared to the corresponding periods in 2006. These decreases reflect the general slow down in the housing market which adversely affected profit margins on blanket contracts in the majority of NPL's operating areas. Unfavorable working conditions due to poor weather earlier in the current year also contributed to the decreases in the six-month and twelve-month periods. The amount of work received under existing blanket contracts, the amount of bid work, and the equipment resale market vary from period to period.

Rates and Regulatory Proceedings

California Attrition Filing. In the fourth quarter of 2006, the CPUC approved a \$2.7 million increase in operating margin related to the Company's 2007 annual California attrition filing. The increase in customer rates was approved to be made effective January 2007. In connection with this filing, the Company also received approval to change the way operating margin is recognized under the Company's margin tracker mechanism. The change provides for authorized levels of margin to be recognized in equal monthly amounts throughout the year, rather than on a seasonally adjusted basis. This change will not impact the total amount of margin recognized annually; however it will affect the comparability of 2007 versus 2006 quarterly amounts. Attrition rate relief during the first half of 2007 provided approximately \$2 million in operating margin, offset by a \$6 million decrease to margin due to the impact of implementing the equalized margin tracker mechanism. The quarterly impact resulting from this equalization is expected to result in increases in margin for the remainder of 2007, particularly in the third quarter (\$7 million), offsetting the decline recognized in the first half of the year.

PGA Filings

All of Southwest's state regulatory commissions have regulations that permit the Company to track and recover its actual costs of purchased gas. Deferred energy provisions and purchased gas adjustment clauses are collectively referred to as "PGA" clauses. Timing differences between changes in PGA rates and the recovery/payment of PGA balances result in over and under-collections. At June 30, 2007, over-collections in Nevada and California resulted in a liability of \$33.2 million and under-collections in Arizona resulted in an asset of \$50.3 million on the Company's balance sheet. PGA filings are subject to audit by state regulatory commissions. PGA rate changes impact cash flows but have no direct impact on profit margin. As of June 30, 2007 and December 31, 2006, Southwest had the following outstanding PGA balances receivable/(payable) (millions of dollars):

	June 30, 2007		December 31, 2006
Arizona	\$ 50.3	\$	68.4
Northern Nevada	(9.9)		1.1
Southern Nevada	(20.1)		4.1
California	(3.2)		3.4
	<u>\$ 17.1</u>	\$	<u>77.0</u>

Capital Resources and Liquidity

The capital requirements and resources of the Company generally are determined independently for the natural gas operations and construction services segments. Each business activity is generally responsible for securing its own financing sources. The capital requirements and resources of the construction services segment are not material to the overall capital requirements and resources of the Company.

Construction Expenditures and Financing

Southwest continues to experience customer growth above industry averages albeit at a slower pace than in the recent past. This growth has required significant capital outlays for new transmission and distribution plant, to keep up with consumer demand. During the twelve-month period ended June 30, 2007, construction expenditures for the natural gas operations segment were \$334 million. Approximately 77 percent of these current-period expenditures represented new construction and the balance represented costs associated with routine replacement of existing transmission, distribution, and general plant. Cash flows from operating activities of Southwest (net of dividends paid) provided \$285 million, or 85 percent, of the required capital resources pertaining to total capital expenditures for the twelve months ended June 30, 2007. The remainder was provided from refundable construction advances, external financing activities, and existing credit facilities. Operating cash flows during the current twelve-month period were positively impacted by earnings growth and recoveries of deferred PGA balances.

Southwest estimates construction expenditures during the three-year period ending December 31, 2009 will be approximately \$880 million. Of this amount, approximately \$337 million are expected to be incurred in 2007. During the three-year period, cash flows from operating activities (net of dividends) are estimated to fund approximately 90 percent of the gas operations' total construction expenditures, assuming timely recovery of currently deferred PGA balances. Southwest also has \$43 million in long-term debt maturities over the three-year period. Maturities would increase to \$50.5 million if an existing bondholder exercises a discretionary put option in September 2007. Over the three-year period, the Company expects to raise \$100 million to \$125 million from its various common stock programs. Any remaining cash requirements are expected to be provided by existing credit facilities and/or other 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, growth levels in Southwest service areas, and earnings. These external sources may include the issuance of both debt and equity securities, bank and other short-term borrowings, customer contributions and advances, and other forms of financing.

During the six months ended June 30, 2006, the Company issued approximately 599,000 additional shares of common stock through the Dividend Reinvestment and Stock Purchase Plan ("DRSPP"), Employee Investment Plan, Management Incentive Plan, and Stock Incentive Plan. No shares were issued through the Equity Shelf Program ("ESP") during the first half of 2007. The Company has \$16.7 million of remaining capacity on the ESP.

Liquidity

Liquidity refers to the ability of an enterprise to generate adequate amounts of cash to meet its cash requirements. Several general factors that could significantly affect liquidity in future years include inflation, growth in Southwest's service territories, changes in the ratemaking policies of regulatory commissions, interest rates, variability of natural gas prices, changes in income tax laws, and the level of Company earnings. Of these factors, natural gas prices have had the most significant impact on Company liquidity.

Over the past several years the cost of natural gas has fluctuated dramatically. Price volatility is expected to continue indefinitely. Southwest periodically enters into fixed-price term contracts to mitigate price volatility. About half of Southwest's annual normal weather supply needs are secured using short duration contracts (one year or less). Natural gas purchases not covered by fixed-price contracts are made under variable-price contracts with firm quantities and on the spot market. Prices for these contracts are not known until the month of purchase. Southwest does not currently utilize other stand-alone derivative financial instruments for speculative purposes, or for hedging. During 2007 or 2008, Southwest intends to supplement its current volatility mitigation program with stand-alone derivative financial

instruments for hedging purposes. The combination of fixed-price contracts and derivative financial instruments should increase flexibility for Southwest and increase supplier diversification. The costs of such derivative financial instruments are expected to be recovered from customers.

The rate schedules in Southwest's service territories contain PGA clauses which permit adjustments to rates as the cost of purchased gas changes. The PGA mechanism allows Southwest to request to change the gas cost component of the rates charged to its customers to reflect increases or decreases in the price expected to be paid to its suppliers and companies providing interstate pipeline transportation service.

On an interim basis, Southwest generally defers over- or under-collections of gas costs to PGA balancing accounts. In addition, Southwest uses this mechanism to either refund amounts over-collected or recoup amounts under-collected as compared to the price paid for natural gas during the period since the last PGA rate change went into effect. At June 30, 2007, the combined balances in PGA accounts totaled a net under-collection of \$17.1 million versus an under-collection of \$77 million at December 31, 2006. Southwest has the ability to draw on its \$300 million credit facility to temporarily finance under-collected PGA balances. This facility was extended by one year in April 2007 to expire in April 2012. Southwest has designated \$150 million of the facility as long-term debt and the remaining \$150 million for working capital purposes. Southwest currently believes the \$150 million designated for working capital purposes is adequate to meet liquidity needs. At June 30, 2007, \$55 million was outstanding on the long-term portion and no borrowings were outstanding on the short-term portion of the credit facility.

In February 2007, the Board of Directors increased the quarterly dividend payout from 20.5 cents to 21.5 cents per share, effective with the June 2007 payment.

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

	For the Twelve Months Ended	
	June 30, 2007	December 31, 2006
Ratio of earnings to fixed charges	2.29	2.25

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

Forward-Looking Statements

This quarterly report contains statements which constitute “forward-looking statements” within the meaning of the Securities Litigation Reform Act of 1995 (“Reform Act”). All statements other than statements of historical fact included or incorporated by reference in this quarterly report are forward-looking statements, including, without limitation, statements regarding the Company’s plans, objectives, goals, projections, strategies, future events or performance, and underlying assumptions. The words “may,” “will,” “should,” “could,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “continue,” and similar words and expressions are generally used and intended to identify forward-looking statements. For example, statements regarding customer growth, estimated future construction expenditures, forecasted operating cash flows, sufficiency of working capital and ability to raise funds and receive external financing, and statements regarding future gas prices, gas purchase contracts and derivative financial instruments, the recovery of under-recovered PGA balances, and the timing and results of future rate approvals and guidelines are forward-looking statements. All forward-looking statements are intended to be subject to the safe harbor protection provided by the Reform Act.

A number of important factors affecting the business and financial results of the Company could cause actual results to differ materially from those stated in the forward-looking statements. These factors include, but are not limited to, the impact of weather variations on customer usage, customer growth rates, changes in natural gas prices, our ability to recover costs through our PGA mechanism, the effects of regulation/deregulation, the timing and amount of rate relief, changes in rate design, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, changes in construction expenditures and financing, renewal of franchises, easements and rights-of-way, changes in operations and maintenance expenses, effects of accounting changes, future liability claims, changes in pipeline capacity for the transportation of gas and related costs, acquisitions and management’s plans related thereto, competition, and our ability to raise capital in external financings. In addition, the Company can provide no assurance that its discussions regarding certain trends relating to its financing, operations and maintenance expenses will continue in future periods. For additional information on the risks associated with the Company’s business, see **Item 1A. Risk Factors** in the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See **Item 7A. Quantitative and Qualitative Disclosures about Market Risk** in the Company’s 2006 Annual Report on Form 10-K filed with the SEC. No material changes have occurred related to the Company’s disclosures about market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company has established disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and benefits of controls must be considered relative to their costs. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or management override of the control. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on the most recent evaluation, as of June 30, 2007, management of the Company, including the Chief Executive Officer and Chief Financial Officer, believe the Company's disclosure controls and procedures are effective at attaining the level of reasonable assurance noted above.

There have been no changes in the Company's internal controls over financial reporting during the second quarter of 2007 that have materially affected, or are likely to materially affect, the Company's internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEMS 1A. through 3. None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders was held on May 3, 2007 with the holders of approximately 38 million of the Company's common shares represented in person or by proxy. Matters voted upon and the results of the voting were as follows:

- (1) The twelve directors nominated were elected.

Name	Votes For
George C. Biehl	37,213,091
Thomas E. Chestnut	37,850,596
Stephen C. Comer	37,813,601
Richard M. Gardner	37,813,137
LeRoy C. Hanneman, Jr.	37,829,141
James J. Kropid	37,824,179
Michael O. Maffie	37,670,068
Anne L. Mariucci	37,784,324
Michael J. Melarkey	37,812,482
Jeffrey W. Shaw	37,809,015
Carolyn M. Sparks	36,699,188
Terrence L. Wright	37,829,598

- (2) The proposal to approve the 2006 Restricted Stock/Unit Plan was approved. Shareholders voted 26,677,236 shares in favor, 7,595,948 against with 409,606 abstentions.
- (3) The proposal to approve amending the Articles of Incorporation to increase the number of authorized shares of common stock was approved. Shareholders voted 35,203,539 shares in favor, 2,681,036 against with 267,602 abstentions.
- (4) The proposal to ratify the selection of PricewaterhouseCoopers LLP as independent accountants for the Company was approved. Shareholders voted 37,788,111 shares in favor, 142,341 against with 221,633 abstentions.

ITEM 5. OTHER INFORMATION

In August 2007, an amendment was made to the Company's \$300 million credit facility with The Bank of New York (and the signatories thereto) to revise and clarify the definition of "unfunded pension liabilities" as used in the agreement, and other technical corrections.

ITEM 6. EXHIBITS

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

- Exhibit 3(i) - Restated Articles of Incorporation of Southwest Gas Corporation.
- Exhibit 3(ii) - Amended Bylaws of Southwest Gas Corporation.
- Exhibit 10.01 - Amendment No. 2 to Credit Facility.
- Exhibit 10.02 - Amendment No. 3 to Credit Facility.
- Exhibit 12.01 - Computation of Ratios of Earnings to Fixed Charges.
- Exhibit 31.01 - Section 302 Certifications.
- Exhibit 32.01 - Section 906 Certifications.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Southwest Gas Corporation

(Registrant)

Date: August 7, 2007

/s/ Roy R. Centrella

Roy R. Centrella
Vice President/Controller and Chief Accounting Officer

**RESTATED ARTICLES OF INCORPORATION
OF
SOUTHWEST GAS CORPORATION,
a California corporation**

Jeffrey W. Shaw and George C. Biehl hereby certify that:

1. They are the duly elected and acting Chief Executive Officer and Executive Vice President/Chief Financial Officer and Corporate Secretary, respectively, of the corporation named above.
2. The Articles of Incorporation of the corporation shall be amended and restated in full as follows:

[Left Blank Intentionally]
**RESTATED ARTICLES OF INCORPORATION
OF
SOUTHWEST GAS CORPORATION
a California corporation**

I.

The name of said corporation is and shall be

SOUTHWEST GAS CORPORATION

II.

The purposes for which it is formed are:

- (a) Primarily to engage in, conduct and carry on the business of manufacturing, generating, producing, buying, transmitting, distributing, selling and otherwise disposing

of gas and/or electricity to be used for light, heat, refrigeration, power and all other lawful purposes, and to supply counties, cities, cities and counties, villages, towns and other localities and places in the State of California and the other states and territories of the United States and in foreign countries, and the inhabitants thereof, with gas and/or electricity, to be used for light, heat, refrigeration and power, and for all other uses to which gas and/or electricity may be put;

(b) To construct, maintain and operate gas plants, with all buildings, structures, pipes, mains, machinery, appliances and apparatus proper or convenient for the manufacture, maintenance, operation, distribution and sale of gas; to construct, maintain and operate electric plants, with all power houses, generating stations, transmission lines, structures, machinery, apparatus, appliances and materials proper or convenient for the generation, transmission, distribution and sale of electricity;

(c) To acquire, own, lease, construct, occupy or use gas works and/or electric works, and to maintain and operate the same;

(d) To acquire, hold, store, sell and distribute gas and/or electricity by any other means and in addition to those herein provided;

(e) To acquire by purchase, appropriation, lease, condemnation or otherwise, to hold, enjoy, mortgage, pledge, assign and convey lands, franchises, water rights, rights-of-way and other easements, patents and patent rights, and all other real and personal property, which may at any time be necessary or proper for the convenient and profitable transaction of the business of said corporation, and for the exercise of its purpose, and of any part hereof, and of its powers and franchises;

(f) To acquire by purchase, subscription or otherwise, to hold, sell, assign, transfer, mortgage, pledge or otherwise dispose of, shares of the capital stock of, and bonds, debentures or other evidences of indebtedness created or issued by any corporation or corporations, and to exercise all rights and powers of ownership concerning the same, including the right to vote thereon;

(g) To borrow money, to execute bonds, promissory notes, bills of exchange, debentures and other obligations and evidences of indebtedness of all kinds;

(h) To mortgage all or any part of the property, rights, interests and franchises of the corporation, and to pledge all or any bonds, promissory notes, bills of exchange, debentures and all securities and contracts of any kind at any time owned by said corporation;

(i) To aid any other corporation by loan or gift, or by guaranty of any or all of its obligations, or otherwise; to engage in, conduct and carry on any business incidental, necessary, useful or auxiliary to the purpose, or any part thereof, for which said corporation is formed;

(j) To exercise the right of eminent domain in any manner which may now or hereafter be allowed or provided by law in the acquisition of any property or rights required by the corporation for the purposes of its business;

(k) To act as principal, agent, joint venturer, partner or in any other capacity which may be authorized or approved by the Board of Directors of this corporation;

(l) In carrying on its business, or for the purpose of attaining or furthering its purpose, or any part thereof as herein set forth and any other purpose or object deemed incidental, necessary, useful or auxiliary to its purpose, or any part thereof, to do any

and all other acts or things and to exercise any and all other powers which a natural person might do or exercise, and which are now or may hereafter be authorized by law;

(m) The foregoing clauses shall be construed both as objects and powers, and it is hereby expressly provided that the enumeration herein of specific objects and powers shall not be held to limit or restrict in any way the general powers of this corporation.

III.

The County in this state where the principal office for the transaction of the business of this corporation is to be located is the County of San Bernardino.

IV.

This corporation is authorized to issue three classes of shares of stock, to be designated respectively, as "Preferred Stock;" "Preference Stock;" and "Common Stock." The total number of shares which this corporation shall have authority to issue is 67,000,000 and the aggregate par value of all shares that are to have a par value shall be \$100,000,000. The number of shares of Preferred Stock shall be 5,000,000 and without par value; the number of shares of Preference Stock shall be 2,000,000 and shall have a par value of each share of said class of \$20; the number of shares of Common Stock shall be 60,000,000 and shall have a par value of each share of said class of \$1.

1. PREFERRED STOCK

Except as otherwise provided by law, shares of Preferred Stock, in preference to the holders of the Preference Stock and the Common Stock, may be issued from time to time, in one or more series, and the Board of Directors of the corporation is authorized

to fix or alter the rights, preferences, privileges and restrictions granted to or imposed upon any such series.

2. PREFERENCE STOCK

Except as otherwise provided by law, shares of Preference Stock, in preference to the holders of the Common Stock, may be issued from time to time, in one or more series, and the Board of Directors of the corporation is authorized to fix or alter the dividend rights, dividend rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, or the liquidation preferences of any wholly unissued series, together with the designation of any such series and the number of shares which shall constitute any such unissued series, and to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any series subsequent to the issue of that series.

3. COMMON STOCK

Except as otherwise provided by law, shares of Common Stock may be issued from time to time, in one or more series, and the Board of Directors of the corporation is authorized to fix the initial dividend rate of any wholly unissued series together with the designation of any such series and the number of shares which shall constitute any unissued series, and to increase or decrease (but not below the number of shares of such series then outstanding) the number of shares of any such series subsequent to the issuance of that series.

Dividends on all series of Common Stock shall have the same record and payment dates, and no dividends may be paid on any series unless dividends at the

rates required hereby are paid concurrently on all series. No series of Common Stock shall have preference over any other series as to the payment of dividends, but the amount of dividends paid may vary among the series outstanding.

All shares of Common Stock outstanding at the date hereof are hereby designated as and shall hereafter continue to be Original Common Stock, and all shares of Common Stock at any time authorized but unissued, until and unless otherwise designated by the Board of Directors, shall be and continue to be Original Common Stock, for a total of 60,000,000 shares of this series. Unless otherwise designated by the Board of Directors, all shares of Common Stock hereafter issued and all shares of Common Stock which the corporation may become obligated to issue upon the conversion of any security convertible into Common Stock and/or upon the exercise of options, warrants or rights to purchase Common Stock shall be considered to be Original Common Stock.

Subject to the voting rights and other rights, preferences and privileges above provided in this Article IV with respect to the Preferred Stock and the Preference Stock, and except as otherwise provided by law, shares of all series of Common Stock and/or the holders thereof shall have full voting rights and powers for the election of directors and for all other purposes, voting together as a single class irrespective of series, and, subject to the provisions specified hereinabove, shall be entitled to receive dividends as and when they are declared by the Board of Directors. Upon liquidation, distribution or winding up of the corporation, the assets of the corporation available for distribution to the holders of the Common Stock shall be distributed ratably among the holders of all shares of the Common Stock at the time outstanding irrespective of and without

reference to series. The Common Stock shall have no conversion, subscription or preemptive rights, nor shall it be subject to redemption, call or assessment.

IV-A

1. SUPERMAJORITY OF SHARES REQUIRED TO APPROVE CERTAIN TRANSACTIONS

The affirmative vote of the holders of not fewer than 85 percent of the outstanding shares of "Voting Stock" (as hereinafter defined) of this corporation shall be required for the approval or authorization of any "Business Combination" (as hereinafter defined) of this corporation with any "Dominant Stockholder" (as hereinafter defined); provided, however, that the 85 percent voting requirement shall not be applicable if any of the following shall occur:

(a) The Board of Directors of this corporation, by the affirmative vote of not fewer than 65 percent of the members thereof, expressly approves in advance the acquisition of the outstanding shares of Voting Stock that caused such Dominant Stockholder to become a Dominant Stockholder; or

(b) The Board of Directors of this corporation, by the affirmative vote of not fewer than 65 percent of the members thereof, expressly approves such Business Combination in advance of such Dominant Stockholder becoming a Dominant Stockholder; or

(c) The Board of Directors of this corporation, by the affirmative vote of not fewer than 85 percent of the members thereof, approves such Business Combination subsequent to such Dominant Stockholder becoming a Dominant Stockholder; or

(d) The Board of Directors of this corporation, by the affirmative vote of not fewer than 85 percent of the members thereof, shall determine that the cash or fair market value of the property, securities or other consideration to be received per share by holders of Voting Stock of this corporation (which shall include, without limitation, all Voting Stock of this corporation retained by them) in the Business Combination is not less than the "Highest Per Share Price" or the "Highest Equivalent Per Share Price" (as these terms are hereinafter defined) paid by the Dominant Stockholder in acquiring any of its holdings of this corporation's Voting Stock.

2. DEFINITIONS

For the purposes of this Article IV-A;

(a) Business Combination. The term "Business Combination" shall include, without limitation, (i) any merger or consolidation of this corporation with or into any Dominant Stockholder or any entity controlled by or under common control with a Dominant Stockholder, (ii) any merger or consolidation of a Dominant Stockholder with or into this corporation or any entity controlled by or under common control with this corporation, (iii) any sale, lease, exchange, transfer or other disposition of all or substantially all of the property and assets of this corporation to a Dominant Stockholder, or any entity controlled by or under common control with a Dominant Stockholder, (iv) any purchase, lease, exchange, transfer or other acquisition by this corporation of all or substantially all of the property and assets of a Dominant Stockholder, or any entity controlled by or under common control with a Dominant Stockholder, (v) any recapitalization of this corporation that would have the effect of increasing the voting power of a Dominant Stockholder, and (vi) any agreement,

contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(b) Dominant Stockholder. The term "Dominant Stockholder" shall mean and include any individual, corporation, partnership or other person or entity which, together with its "Affiliates" and "Associates," "Beneficially Owns" (as these terms are hereinafter defined) in the aggregate 10 percent or more of the outstanding Voting Stock of this corporation, and any Affiliate or Associate of any such individual, corporation, partnership or other person or entity.

A Dominant Stockholder shall be deemed to have acquired a share of Voting Stock of this corporation at the time when such Dominant Stockholder became the Beneficial Owner thereof. Without limitation, any share of Voting Stock of this corporation that any Dominant Stockholder has the right to acquire at any time pursuant to any agreement, or upon exercise of conversion rights, warrants or options, or otherwise, shall be deemed to be Beneficially Owned by the Dominant Stockholder and to be outstanding for purposes of this subparagraph (b).

(c) Affiliate. An "affiliate" of, or a person "affiliated" with, a specified person such as a Dominant Stockholder, is a person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the person specified.

(d) Associate. The term "associate," used to indicate a relationship with any person such as a Dominant Stockholder, means (i) any corporation or organization of which such person is an officer or partner or is, directly or indirectly, the beneficial owner of 10 percent or more of any class of equity securities, (ii) any trust or other estate in

which such person has a substantial beneficial interest or as to which such person serves as trustee or in a similar fiduciary capacity, and (iii) any relative or spouse of such person, or any relative of such spouse, who has the same home as such person or who is a director or officer of such person or any of its parents or subsidiaries.

(e) Beneficially Owns or Beneficial Owner. A "beneficial owner" of, or one who "beneficially owns," a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, (i) has the right to acquire such security through the exercise of any option, warrant or right or through the conversion of another security into such security, or (ii) has or shares voting power which includes the power to vote, or to direct the voting of, such security, and/or (iii) has or shares investment power which includes the power to dispose of, or to direct the disposition of, such security.

(f) Voting Stock. The term "Voting Stock" shall mean all of the outstanding shares of Common Stock (together, solely for the purpose of identifying a Dominant Stockholder, with certain authorized but unissued shares that a Dominant Stockholder is deemed to Beneficially Own), and each reference to a proportion of shares of Voting Stock shall refer to such proportion of the votes entitled to be cast by such shares.

(g) Highest Per Share Price and Highest Equivalent Per Share Price. The terms "Highest Per Share Price" and "Highest Equivalent Per Share Price" as used in this Article IV-A shall mean the following:

The Highest Per Share Price shall mean the highest price that can be determined to have been paid at any time by the Dominant Stockholder for any share of Voting Stock. If there are any securities of this corporation outstanding ("related

securities" herein) that entitle the holder thereof to purchase, or that are convertible into, Voting Stock, the Highest Equivalent Per Share Price shall mean, with respect to each type, class and/or series of related securities, the amount in each case determined by the affirmative vote of not fewer than 85 percent of the members of the Board of Directors, on whatever basis they believe in good faith to be appropriate, to be the highest per share price equivalent of the highest price that can be determined to have been paid at any time by the Dominant Stockholder for any such related securities. In determining the Highest Per Share Price and Highest Equivalent Per Share Price, all purchases of Voting Stock and related securities of this corporation by the Dominant Stockholder shall be taken into account regardless of whether they occurred before or after the Dominant Stockholder became a Dominant Stockholder. With respect to shares of Voting Stock owned by Affiliates, Associates or other persons whose ownership is attributed to a Dominant Stockholder, if the price paid by such Dominant Stockholder for such shares is not determined by the affirmative vote of not fewer than 85 percent of the members of the Board of Directors, the price so paid shall be deemed to be the higher of (i) the price paid upon the acquisition thereof by the Affiliate, Associate or other person or (ii) the market price of the shares in question at the time when the Dominant Stockholder became the Beneficial Owner thereof. The Highest Per Share Price and the Highest Equivalent Per Share Price shall include any brokerage commissions, transfer taxes and soliciting dealers' fees or other value paid by the Dominant Stockholder with respect to all Voting Stock and related securities acquired by the Dominant Stockholder.

3. SUPERMAJORITY OF SHARES REQUIRED TO AMEND OR REPEAL THIS ARTICLE

The provisions set forth in this Article IV-A may not be amended, altered, changed or repealed in any respect unless approved by the affirmative vote of the holders of not fewer than 65 percent of the outstanding shares of Voting Stock (as defined in this Article IV-A) at a meeting of the shareholders duly called and unless the consideration of any such amendment, alteration, change or repeal shall have been included as an agenda item in the notice of such meeting; provided, however, that if there is a Dominant Stockholder (as defined in this Article IV-A) on the record date for determining the holders of Voting Stock entitled to vote at such meeting, any such amendment, alteration, change or repeal must be approved by the affirmative vote of the holders of not fewer than 85 percent of the outstanding shares of Voting Stock of this corporation.

V.

The directors of this corporation need not be shareholders.

VI.

1. The liability of directors of the corporation for monetary damages shall be eliminated to the fullest extent permissible under California Law.

2. The corporation is authorized to provide indemnification of agents (as defined in Section 317 of the California Corporations Code) through bylaw provisions, agreements with agents, vote of shareholders or disinterested directors or otherwise, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the

California Corporations Code with respect to actions for breach of duty to the corporation and its shareholders.

3. The corporation is authorized to purchase and maintain insurance from any insurance company, whether or not the shares of such insurance company are wholly or partially owned by the corporation, on behalf of agents (as defined in Section 317 of the California Corporations Code) against liability asserted against or incurred by the agent in such capacity or arising out of the agent's status, in excess of the indemnification otherwise permitted by Section 317 of the California Corporations Code, subject only to the applicable limits set forth in Section 204 of the California Corporations Code.

4. The foregoing amended and restated Articles of Incorporation were duly approved by the Board of Directors of this corporation and the amendments to the Articles of Incorporation contained therein were approved by the required vote of shareholders in accordance with Section 903 of the California Corporation Code; the total number of outstanding shares of the only class entitled to vote with respect to the amendment was 42,041,680 shares of common stock; and the number of shares of common stock voting in favor of the amendment equaled or exceeded the vote required, such required vote being a majority of the outstanding shares of common stock. At the time the amendments were submitted to shareholders for approval and currently, there were no outstanding shares of authorized preferred stock or preference stock.

5. We further declare under penalty of perjury under the laws of the State of California that the matters set forth in this Certificate are true and correct of our own knowledge.

_____/s/ JEFFREY W. SHAW_____

Jeffrey W. Shaw
Chief Executive Officer

_____/s/ GEORGE C. BIEHL_____

George C. Biehl
Executive Vice President/Chief Financial
Officer and Corporate Secretary

BYLAWS
OF
SOUTHWEST GAS CORPORATION
(As amended 05/02/07)

BYLAWS

OF

SOUTHWEST GAS CORPORATION

ARTICLE I

Section 1. Principal Office

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

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

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

Commencing in May 2004, 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 first 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

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

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

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.

Section 6. Proper Business for Shareholder Meetings

1. At a meeting of the shareholders, only such business shall be proper as shall be brought before the meeting: (i) pursuant to the Corporation's notice of meeting; (ii) by or at the direction of the Board of Directors of the Corporation; or (iii) by any shareholder of the Corporation who is a shareholder of record at the time of giving the notice provided for herein, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth herein.
2. For business to be properly brought before a meeting by a shareholder pursuant to clause (iii) above, the shareholder must have given timely notice thereof in writing to the Secretary. To be timely as to an annual meeting of shareholders, a shareholder's notice must be received at the principal executive office of the Corporation not less than 120 calendar days before the date of the Corporation's proxy statement released to shareholders in connection with the previous year's annual meeting; provided however, that if the date of the meeting is changed by more than 30 days from the date of the previous year's meeting, notice by shareholder to be timely must be received no later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting of shareholders, a shareholder notice must be received not later than the call of the meeting as provided for in Section 2 of this Article II. Such shareholder notice shall set forth as to each matter the shareholder proposes to bring before the meeting: (a) a brief description of and the reasons for proposing such matter at the meeting; (b) the name and address, as they appear on the Corporation's books, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made; (c) the class and number of shares of the Corporation which are owned beneficially and of record by such shareholder of record and by the beneficial owner, if any, on whose behalf the proposal is made; and (d) any material interest of such shareholder of record and the beneficial owner, if any, on whose behalf the proposal is made, in such proposal.
3. Notwithstanding anything in these Bylaws to the contrary, no business shall be proper at a meeting unless brought before it in accordance with the procedures set forth herein. Further, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth herein.
4. The Chairman of the Board of Directors of the Corporation or the individual designated as chairman of the meeting shall, if the facts warrant, determine, and declare to the meeting that business was not properly brought before the meeting and in accordance with the procedures proscribed herein, and if the chairman should so determine, that any such business not properly brought before the meeting shall not be transacted.

5. Notwithstanding anything provided herein to the contrary, the procedures for submission of shareholder proposals have not expended, altered, or affected in any manner, whatever rights or limitations may exist regarding the ability of a shareholder of the Corporation to submit to a proposal for consideration by shareholders of the Corporation under California or federal law.

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 trans- action 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 twelve (12).

Section 3. Director Nominating Procedure

1. Except for the filling of vacancies, as provided for in Section 6 of this Article III, only persons who are nominated in accordance with the procedures set forth herein shall be qualified to serve as directors. Nominations of persons for election to the Board may be made at a meeting of shareholders: (a) by or at the direction of the Board or (b) by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Bylaw, who shall be entitled to vote for the election of directors at the meeting and who complies with the notice procedures set forth in this Bylaw.

2. Nominations by shareholders shall be made pursuant to timely notice in writing to the Secretary. To be timely as to an annual meeting, a shareholder's notice must be received at the principal executive offices of the Corporation not less than 20 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that if the date of the annual meeting is changed by more than 30 days from such anniversary date, notice by the shareholder to be timely must be so received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. To be timely as to a special meeting at which directors are to be elected, a shareholder's notice must be received not later than the close of business on the 10th day following the earlier of the day on which notice of the date of the meeting was mailed to shareholders or public disclosure of such date was made. Such shareholder's notice shall set forth: (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); (b) as to the shareholder giving the notice, (i) the name and address, as they appear on the Corporation's books, of such shareholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such shareholder and also which are owned of record by such shareholder; and (c) as to the beneficial owner, if any, on whose behalf the nomination is made, (i) the name and address of such person and (ii) the class and number of shares of the Corporation which are beneficially owned by such person. At the request of the Board, any person nominated by the Board for election as a director shall furnish to the Secretary that information required to be set forth in the shareholder's notice of nomination which pertains to the nominee.

3. Except for the filling of vacancies, as provided for in Section 6 of this Article III, no person shall be qualified to serve as a director of the Corporation unless nominated in accordance with the procedures set forth in this Bylaw. The Chairman of the Board of Directors of the Corporation or the individual designated as chairman of the meeting shall, if the facts warrant, determine, and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by these Bylaws, and if the chairman should so determine, that the defective nomination shall be disregarded. Notwithstanding the foregoing provisions of this Bylaw, a shareholder shall also comply with all applicable requirements of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Bylaw.

Section 4. Qualification of Directors

The majority of directors of the Board of Directors shall not be officers or employees of the Corporation or any of its subsidiaries and shall not have held such positions at any time during the three years prior to election or selection to the Board of Directors. Whether an

individual, who is an officer or employee of the Corporation or any of its subsidiaries, satisfies this qualification requirement will be determined at the time of his or her election or selection.

Section 5. 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 6. Vacancies

Vacancies on 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 7. First Meeting of Directors

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 8. Regular Meetings

Commencing in 2004, the time for other regular meetings of the Board of Directors, when held, shall be 8 a.m. on the third Tuesday of January, September, and November, the first Tuesday of March, the first Wednesday of May, and fourth Tuesday of July, 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 9. Special Meetings

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 10. Notice of Regular and Special Meetings of the Directors

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: (i) mailing to each of them a copy of such notice at least five days; or (ii) delivering personally or by telephone, including voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail, or other electronic means such notice at least 48 hours, 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 11. Waiver of Notice

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 12. Action by Unanimous Consent of Directors

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 13. Telephonic Participation in Meetings

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:

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

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) 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; (ii) if a court of competent jurisdiction finally determines that any indemnification hereunder is unlawful; (iii) for acts or omissions involving intentional misconduct or knowing and culpable violation of law; (iv) 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; (v) for any transaction for which the director or officer derived an improper personal benefit; (vi) 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; (vii) 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; (viii) for costs, charges, expenses, liabilities, and losses arising under Section 310 or 316 of the General Corporation Law of California (the "Law"); and (ix) 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, 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, 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 on behalf of the Corporation contracts and other instruments in writing within the scope of his authority or if, when, and as directed to do so 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 lawfully direct, and shall be entitled to have a certificate 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.

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 year of its creation, and other appropriate words, and may alter the same at pleasure.

ARTICLE XX

AMENDMENTS TO BYLAWS

Section 1. Power of Shareholders

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

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.

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 2nd day of May 2007.

 /s/ GEORGE C. BIEHL
George C. Biehl
Executive Vice President/Chief Financial
Officer and Corporate Secretary

AMENDMENT NO. 2
to
REVOLVING CREDIT AGREEMENT

AMENDMENT NO. 2 (this "Amendment"), dated as of May 18, 2007, to the Revolving Credit Agreement, dated as of April 6, 2005, by and among SOUTHWEST GAS CORPORATION (the "Borrower"), the lenders listed on the signature pages thereto (the "Lenders"), THE BANK OF NEW YORK, as administrative agent for the Lenders (in such capacity, the "Administrative Agent"), BANK OF AMERICA, N.A., as Syndication Agent and JP MORGAN CHASE BANK, N.A., UNION BANK OF CALIFORNIA, N.A. and KEYBANK NATIONAL ASSOCIATION, as Co-Documentation Agents (the "Revolving Credit Agreement").

RECITALS

I. Capitalized terms used herein that are not otherwise defined shall have the meanings assigned to such terms in the Revolving Credit Agreement.

II. The Borrower has requested that the Administrative Agent and the Lenders agree to (i) extend the Termination Date; and (ii) amend the Revolving Credit Agreement in certain other respects.

III. The Administrative Agent and the Lenders have advised the Borrower that they are willing to agree to the Borrower's request on the terms and subject to the conditions set forth in this Amendment.

NOW THEREFORE, in consideration of the covenants, conditions and agreements hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged the parties hereto agree as follows:

Article I **Amendments.**

1.1 Effective on the Amendment No. 2 Effective Date, the Revolving Credit Agreement is hereby amended as follows:

(a) Section 1.01 of the Revolving Credit Agreement is amended by adding in appropriate alphabetical order the following definitions:

"Amendment No. 2 Effective Date" means May 18, 2007.

(b) Section 1.01 of the Revolving Credit Agreement is amended by deleting the definition of "Termination Date" in its entirety and substituting the following therefor:

"Termination Date" means, May 15, 2012, or such earlier date on which the Revolving Credit Notes shall become due and payable, whether by acceleration or otherwise.

Article II Conditions of Effectiveness.

2.1 This Amendment shall be dated as of May 18, 2007 and shall become effective as of the date that:

- (a) the Administrative Agent shall have received counterparts of this Amendment executed by the Borrower and each of the Lenders, and
- (b) the Administrative Agent shall have received such other documents as the Administrative Agent or the Lenders shall reasonably request.

Article III Other Provisions.

3.1 Except as specifically amended hereby, the Credit Documents shall remain in all respects in full force and effect.

3.2 In order to induce the Administrative Agent and the Lenders to execute this Amendment, the Borrower hereby (i) certifies that, immediately after giving effect to this Amendment, all representations and warranties contained in the Revolving Credit Agreement are true and correct in all respects as of the date hereof (except to the extent that any representations and warranties speaks as of a certain date) and that no Default or Event of Default exists under the Revolving Credit Agreement, (ii) reaffirms and admits the validity and enforceability of the Credit Documents and its obligations thereunder, and (iii) agrees and admits that it has no valid defenses to or offsets against any of its obligations to the Administrative Agent and the Lenders under the Loan Documents as of the date hereof.

3.3 This Amendment contains the entire agreement among the parties relating to the subject matter hereof and may not be amended, modified or waived except by a written agreement executed in accordance with Section 11.06 of the Revolving Credit Agreement.

3.4 This Amendment may be executed in any number of counterparts, included counterparts executed and delivered by facsimile, each of which shall be an original and all of which shall constitute one agreement. It shall not be necessary in making proof of this Amendment to produce or account for more than one counterpart signed by the party to be charged.

3.5 **THE RIGHTS AND DUTIES OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS UNDER THIS AGREEMENT SHALL, PURSUANT TO NEW YORK GENERAL OBLIGATIONS LAW**

SECTION 5-1401, BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

3.6 The Borrower agrees to pay all reasonable fees and expenses of counsel to the Administrative Agent in connection with this Amendment.

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IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed as of the date first written above.

SOUTHWEST GAS CORPORATION

By: \s\ KENNETH J. KENNY

Name: Kenneth J. Kenny

Title: Vice President/Treasurer

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

THE BANK OF NEW YORK,
as Administrative Agent and Lender

By: \s\ RAYMOND J. PALMER

Name: Raymond J. Palmer

Title: Vice President

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

BANK OF AMERICA, N.A., as
Syndication Agent and Lender

By: \s\ PETER J. VITALE

Name: Peter J. Vitale

Title: Senior Vice President

**AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT**

JPMORGAN CHASE BANK, N.A., as a
Co-Documentation Agent and Lender

By: \s\ NANCY R. BARWIG

Name: Nancy R. Barwig

Title: Vice President

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

UNION BANK OF CALIFORNIA,
N.A., as a Co-Documentation Agent
and Lender

By: \s\ JESUS SERRANO

Name: Jesus Serrano

Title: Vice President

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

KEYBANK NATIONAL
ASSOCIATION, as a Co-
Documentation Agent and Lender

By: \s\ KEVEN D. SMITH

Name: Keven D. Smith

Title: Senior Vice President

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

KBC BANK, N.V.

By: \s\ THOMAS G. JACKSON

Name: Thomas G. Jackson

Title: First Vice President

By: \s\ JEAN-PIERRE DIELS

Name: Jean-Pierre Diels

Title: First Vice President

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

CITIBANK, N.A.

By: \ DAVID E. HUNT

 Name: David E. Hunt

 Title: Attorney-In-Fact

AMENDMENT NO. 2 TO
SOUTHWEST GAS CREDIT AGREEMENT

U.S. BANK NATIONAL ASSOCIATION

By: \s\ JAMES W. HENKEN

Name: James W. Henken

Title: Vice President

party thereto, The Bank of New York, as Administrative Agent, Bank of America, N.A., as Syndication Agent, and JPMorgan Chase Bank, N.A., Union Bank of California, N.A. and KeyBank National Association, as Co-Documentation Agents.

“Projected Benefit Obligations” means, as of any date, the actuarial present value of Pension Plan benefits attributed to employee service to such date measured using assumptions as to future compensation levels.

“Regulatory Assets” means certain assets of the Borrower or an ERISA Affiliate which represent future probable increases in revenues to be recorded by the Borrower or such ERISA Affiliate associated with Pension Plan liabilities incurred by the Borrower or such ERISA Affiliate, to the extent permitted to be recorded as such under Statement of Financial Accounting Standards No. 71.

(b) Section 1.01 of the Revolving Credit Agreement is hereby amended by deleting the definition of “Unfunded Pension Liabilities” in its entirety and substituting the following therefor:

“Unfunded Pension Liabilities” means, as of the end of any fiscal year of the Borrower (or more frequently, if such calculation is required to be made more frequently by law or by GAAP), (a) a Plan’s Projected Benefit Obligations minus (b) the current value of that Plan’s assets, as defined in Section 3(26) of ERISA, plus Regulatory Assets.

(c) Section 5.01(g)(iv) of the Revolving Credit Agreement is hereby amended by deleting the text thereof and substituting the following therefor:

“None of the Qualified Plans subject to Title IV of ERISA has any Unfunded Pension Liability in excess of ten percent (10%) of the Net Worth as to which the Borrower is or may be liable.”

(d) Section 8.01(j) of the Revolving Credit Agreement is hereby amended by deleting the text thereof and substituting the following therefor:

“(j) (i) The Borrower or an ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under a Multiemployer Plan; (ii) the Borrower or an ERISA Affiliate shall fail to satisfy its contribution requirements under Section 412(c)(II) of the Code, whether or not it has sought a waiver under Section 412(d) of the Code where such failure can reasonably be expected to impose on the Borrower or an ERISA Affiliate liability (for additional taxes, to Plan participants, or otherwise) in the aggregate amount in excess of ten percent (10%) of the Net Worth; (iii) the Unfunded Pension Liabilities of a Plan or Plans shall exceed ten percent (10%) of the Net Worth; (iv) a Plan that is intended to be

qualified under Section 401(a) of the Code shall lose its qualification, and such loss can reasonably be expected to impose on the Borrower or an ERISA Affiliate liability (for additional taxes, to Plan participants, or otherwise) in the aggregate amount of ten percent (10%) of the Net Worth or more; (v) the commencement or increase of contributions to, the adoption of, or the amendment of a Plan by, the Borrower or an ERISA Affiliate shall result in a net increase in unfunded liabilities of the Borrower or an ERISA Affiliate in excess of ten percent (10%) of the Net Worth; or (vi) any combination of events listed in clause (iii) through (v) that involves a net increase in aggregate Unfunded Pension Liabilities and unfunded liabilities in excess of ten percent (10%) of the Net Worth shall occur; or”

Article II **Conditions of Effectiveness.**

2.1 This Amendment shall be dated as of August 3, 2007 and shall be effective as of April 6, 2005 upon satisfaction of the following conditions:

- Required Lenders, and
- (a) the Administrative Agent shall have received counterparts of this Amendment executed by the Borrower and each of the
 - (b) the Administrative Agent shall have received such other documents as the Administrative Agent or the Required Lenders shall reasonably request.

Article III **Other Provisions.**

3.1 Except as specifically amended hereby, the Credit Documents shall remain in all respects in full force and effect.

3.2 In order to induce the Administrative Agent and the Required Lenders to execute this Amendment, the Borrower hereby (a) certifies that, immediately after giving effect to this Amendment, all representations and warranties contained in the Revolving Credit Agreement are true and correct in all respects as of the date hereof (except to the extent that any representations and warranties speaks as of a certain date) and that no Default or Event of Default exists under the Revolving Credit Agreement, (b) reaffirms and admits the validity and enforceability of the Credit Documents and its obligations thereunder and (c) agrees and admits that it has no valid defenses to or offsets against any of its obligations to the Administrative Agent and the Lenders under the Credit Documents as of the date hereof.

3.3 This Amendment contains the entire agreement among the parties relating to the subject matter hereof and may not be amended, modified or waived except by a written agreement executed in accordance with Section 11.06 of the Revolving Credit Agreement.

3.4 This Amendment may be executed in any number of counterparts, included counterparts executed and delivered by facsimile, each of which shall be an original and all of which shall constitute one agreement. It shall not be necessary in making proof of this Amendment to produce or account for more than one counterpart signed by the party to be charged.

3.5 **THE RIGHTS AND DUTIES OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS UNDER THIS AGREEMENT SHALL, PURSUANT TO NEW YORK GENERAL OBLIGATIONS LAW SECTION 5-1401, BE GOVERNED BY THE LAW OF THE STATE OF NEW YORK.**

3.6 The Borrower agrees to pay all reasonable attorneys' fees and expenses of the Administrative Agent and BNY Capital Markets, Inc. thereto in connection with the arrangement, preparation, negotiation and execution of this Amendment.

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IN WITNESS WHEREOF, the parties have caused this Amendment to be duly executed as of the date first written above.

SOUTHWEST GAS CORPORATION

By: \s\ KENNETH J. KENNY

Name: Kenneth J. Kenny

Title: Vice President/Treasurer

AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT

THE BANK OF NEW YORK,
as Administrative Agent and Lender

By: \s\ RAYMOND J. PALMER

Name: Raymond J. Palmer

Title: Vice President

AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT

BANK OF AMERICA, N.A., as
Syndication Agent and Lender

By: \s\ PETER J. VITALE

Name: Peter J. Vitale

Title: Senior Vice President

AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT

JPMORGAN CHASE BANK, N.A., as a
Co-Documentation Agent and Lender

By: s\ NANCY R. BARWIG

 Name: Nancy R. Barwig

 Title: Vice President

**AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT**

UNION BANK OF CALIFORNIA, N.A., as
a Co-Documentation Agent and Lender

By: \\s\ JEFFREY P. FESENMAIER

Name: Jeffrey P. Fesenmaier, CFA

Title: Assistant Vice President

**AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT**

KEYBANK NATIONAL ASSOCIATION,
as a Co-Documentation Agent and Lender

By: s\ KEVEN D. SMITH

Name: Keven D. Smith

Title: Senior Vice President

AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT

KBC BANK, N.V.

By: \s\ THOMAS G. JACKSON

Name: Thomas G. Jackson

Title: First Vice President

By: \s\ SANDRA T. JOHNSON

Name: Sandra T. Johnson

Title: First Vice President

AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT

CITIBANK, N.A.

By: \s\ JOHN F. MILLER

Name: John F. Miller

Title: Attorney-in-Fact

AMENDMENT NO. 3 TO
SOUTHWEST GAS CREDIT AGREEMENT

U.S. BANK NATIONAL ASSOCIATION

By: \s\ JAMES W. HENKEN

Name: James W. Henken

Title: Vice President

SOUTHWEST GAS CORPORATION
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Thousands of dollars)

	For the Twelve Months Ended					
	Jun 30, 2007	December 31,				
		2006	2005	2004	2003	2002
1. Fixed charges:						
A) Interest expense	\$ 92,747	\$ 92,878	\$ 87,687	\$ 84,138	\$ 78,724	\$ 79,586
B) Amortization	2,877	3,467	3,700	3,059	2,752	2,278
C) Interest portion of rentals	6,758	6,412	6,333	6,779	6,665	8,846
D) Preferred securities distributions	--	--	--	--	4,015	5,475
Total fixed charges	<u>\$ 102,382</u>	<u>\$ 102,757</u>	<u>\$ 97,720</u>	<u>\$ 93,976</u>	<u>\$ 92,156</u>	<u>\$ 96,185</u>
2. Earnings (as defined):						
E) Pretax income from continuing operations	\$ 132,214	\$ 128,357	\$ 68,435	\$ 87,012	\$ 55,384	\$ 65,382
Fixed Charges (1. above)	102,382	102,757	97,720	93,976	92,156	96,185
Total earnings as defined	<u>\$ 234,596</u>	<u>\$ 231,114</u>	<u>\$ 166,155</u>	<u>\$ 180,988</u>	<u>\$ 147,540</u>	<u>\$ 161,567</u>
	<u>2.29</u>	<u>2.25</u>	<u>1.70</u>	<u>1.93</u>	<u>1.60</u>	<u>1.68</u>

Certification on Form 10-Q

I, Jeffrey W. Shaw, certify that:

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

Date: August 7, 2007

/s/ JEFFREY W. SHAW
Jeffrey W. Shaw
Chief Executive Officer
Southwest Gas Corporation

Certification on Form 10-Q

I, George C. Biehl, certify that:

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

Date: August 7, 2007

/s/ GEORGE C. BIEHL
George C. Biehl
Executive Vice President, Chief Financial Officer
and Corporate Secretary
Southwest Gas Corporation

SOUTHWEST GAS CORPORATION

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation (the "Company") on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, Jeffrey W. Shaw, the Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

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

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

Dated: August 7, 2007

/s/ Jeffrey W. Shaw
Jeffrey W. Shaw
Chief Executive Officer

CERTIFICATION

In connection with the periodic report of Southwest Gas Corporation (the "Company") on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission (the "Report"), I, George C. Biehl, Executive Vice President, Chief Financial Officer and Corporate Secretary of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

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

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

Dated: August 7, 2007

/s/ George C. Biehl
George C. Biehl
Executive Vice President, Chief Financial Officer and Corporate Secretary