

SOUTHWEST GAS CORP
Form S-3/A
July 22, 2003

As filed with the Securities and Exchange Commission on July 22, 2003

File No. 333-106419

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

SOUTHWEST GAS CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

California

(State or Other Jurisdiction of

Incorporation or Organization)

SOUTHWEST GAS CAPITAL II

SOUTHWEST GAS CAPITAL III

SOUTHWEST GAS CAPITAL IV

(Exact Name of Registrant as Specified in Its Charter)

Delaware

Delaware

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

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88-0085720

(I.R.S. Employer Identification Number)

To Be Applied For

To Be Applied For

To Be Applied For
(I.R.S. Employer Identification Number)

5241 Spring Mountain Road

P.O. Box 98510

Las Vegas, Nevada 89193-8510

(702) 876-7237

(Address, Including Zip Code, and Telephone Number, Including
Area Code, of Registrants Principal Executive Offices)

GEORGE C. BIEHL

Executive Vice President, Chief Financial Officer and Corporate Secretary

Southwest Gas Corporation

5241 Spring Mountain Road

P.O. Box 98510

Las Vegas, Nevada 89193-8510

(702) 876-7237

(Name, Address, Including Zip Code, and Telephone Number,
Including Area Code, of Agent For Service)

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective, as determined by market conditions and other factors.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

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If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. _____

CALCULATION OF REGISTRATION FEE

Title of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit (1)	Proposed Maximum Aggregate Offering Price	Amount Of Registration Fee (7)
Southwest Gas Corporation				
Debt Securities			(1)	
Southwest Gas Corporation				
Preferred Stock (without par value)			(1)(2)	
Southwest Gas Corporation				
Depository Shares			(1)(2)(3)	
Southwest Gas Corporation				
Common Stock (\$1 par value)			(1)(4)	
Preferred Trust Securities of Southwest Gas Capital II			(1)(5)	
Preferred Trust Securities of Southwest Gas Capital III			(1)(5)	
Preferred Trust Securities of Southwest Gas Capital IV			(1)(5)	
Southwest Gas Corporation				
Guarantee of the Above-Referenced Preferred Trust Securities (Preferred Trust Securities Guarantee)			(1)(6)	
Southwest Gas Corporation				
Trust Debt Securities			(1)(5)	

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Total	\$ 300,000,000	100%	\$ 300,000,000	\$ 24,270
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The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

- (1) There are being registered hereunder such presently indeterminate principal amount or number of (a) shares of Common Stock, shares of Preferred Stock, Depositary Shares, Debt Securities and Trust Debt Securities which may be sold from time to time by Southwest Gas Corporation and (b) Preferred Trust Securities which may be sold from time to time by Southwest Gas Capital II, Southwest Gas Capital III or Southwest Gas Capital IV and which will be guaranteed as set forth hereunder by Southwest Gas Corporation. In no event will the aggregate maximum offering price of all securities issued pursuant to this Registration Statement exceed \$300,000,000.
 - (2) Shares of Preferred Stock and Depositary Shares may be issuable upon conversion of Debt Securities registered hereby.
 - (3) In the event Southwest Gas Corporation elects to offer to the public fractional interests in shares of the Preferred Stock registered hereunder, Depositary Receipts will be distributed to those persons purchasing such fractional interests, and the shares of Preferred Stock will be issued to the Depositary under any such Deposit Agreement.
 - (4) Shares of Common Stock may be issuable in primary offerings and upon conversion of the Preferred Stock or Debt Securities registered hereby.
 - (5) Trust Debt Securities may be issued and sold to Southwest Gas Capital II, Southwest Gas Capital III or Southwest Gas Capital IV, in which event such Trust Debt Securities may later be distributed to the holders of Preferred Trust Securities upon a dissolution of Southwest Gas Capital II, Southwest Gas Capital III or Southwest Gas Capital IV and the distribution of the assets thereof. No separate consideration will be received for the Trust Debt Securities.
 - (6) This Registration Statement is deemed to include backup undertakings of Southwest Gas Corporation to provide certain indemnities in respect of and pay and be responsible for certain expenses, costs, liabilities and debts of Southwest Gas Capital II, Southwest Gas Capital III and Southwest Gas Capital IV and such other obligations of Southwest Gas Corporation set forth in the respective trust agreements, trust debt indentures, the Trust Debt Securities and the Preferred Trust Securities Guarantee, in each case as further described in this Registration Statement. No separate consideration will be received for Southwest Gas Corporation's agreements as to expenses and liabilities. Pursuant to Rule 457(n) under the Securities Act, no fee is payable with respect to this Preferred Trust Securities Guarantee and back-up undertakings.
 - (7) Pursuant to Rule 457(p) under the Securities Act, the registration fee of \$24,270 that would otherwise be due with respect to the securities registered pursuant to this Registration Statement is partially offset by a \$16,180 credit for fees previously paid by us to the Securities and Exchange Commission associated with \$200 million of unissued securities that were previously registered by us pursuant to registration statement No. 333-74520 on Form S-3, filed by Southwest Gas Corporation on December 4, 2001, and such unissued securities are hereby deemed deregistered. The amount of the fee has been calculated pursuant to Rule 457(o) of the rules and regulations under the Securities Act.
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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated July 22, 2003

PROSPECTUS

\$300,000,000

SOUTHWEST GAS CORPORATION

Debt Securities, Trust Debt Securities, Preferred Stock, Depositary Shares and Common Stock

SOUTHWEST GAS CAPITAL II

SOUTHWEST GAS CAPITAL III

SOUTHWEST GAS CAPITAL IV

Preferred Trust Securities

Guaranteed, to the extent set forth herein, by Southwest Gas Corporation

We may offer and sell the securities from time to time in one or more offerings. The types of securities that Southwest may offer are common stock, debt securities (including debt securities convertible into common stock), and preferred stock (including preferred stock convertible into common stock). Southwest may also issue fractional shares of preferred stock by issuing receipts for depositary shares. Southwest Gas Capital II, Southwest Gas Capital III and Southwest Gas Capital IV may issue preferred trust securities. All of the common trust securities of Southwest Gas Capital II, Southwest Gas Capital III and Southwest Gas Capital IV will be owned by Southwest. Southwest will also guarantee payments on the preferred trust securities (to the extent not previously paid) by executing a guarantee and other documents that, together, have the effect of providing a full, irrevocable and unconditional guarantee of the obligations under the preferred trust securities. This prospectus may not be used to consummate sales of any of these securities unless accompanied by a prospectus supplement.

Each time we sell securities we will provide a supplement to this prospectus that contains specific information about the offering and the terms of the securities. The supplement may also add, update or change information contained in this prospectus. You should carefully read this

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prospectus and any supplement before you invest in any of our securities.

The common stock of Southwest is listed on the New York Stock Exchange under the symbol SWX . We are also obligated to list any preferred trust securities that may be issued and any trust debt securities that may be distributed to holders of preferred trust securities. Unless otherwise provided in a prospectus supplement, we will not list any of the other types of securities being offered.

See Company Risk Factors beginning on page 3 for certain risks you should consider.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2003.

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ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement that we filed with the United States Securities and Exchange Commission, or the SEC. By using a shelf registration statement, we may sell up to \$300,000,000 offering price of any combination of the securities described in this prospectus from time to time and in one or more offerings. This prospectus only provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a supplement to this prospectus that contains specific information about the terms of the securities. The supplement may also add, update or change information contained in this prospectus. Before purchasing any securities, you should carefully read both this prospectus and any supplement, together with the additional information described under the heading Where You Can Find More Information.

You should rely only on the information contained or incorporated by reference in this prospectus and in any supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and any supplement to this prospectus is accurate as of the dates on their covers. Our business, financial condition, results of operations and prospects may have changed since those dates.

In this prospectus, unless the context indicates otherwise, the words and terms Southwest, the Company, we, our, ours and us refer to Southwest Gas Corporation and its consolidated subsidiaries.

COMPANY RISK FACTORS

Described below are some of the identified risk factors that may have a negative impact on our future financial performance.

Our liquidity, and in certain circumstances, earnings, may be reduced during periods in which natural gas prices are rising significantly or are more volatile.

Rate schedules in each of our service territories contain purchased gas adjustment clauses which permit us to file for rate adjustments to recover increases in the cost of purchased gas. Increases in the cost of purchased gas have no direct impact on our profit margins, but do affect cash flows and can therefore impact the amount of our capital resources. We have used short-term borrowings in the past to temporarily finance increases in purchased gas costs, and we expect to do so during 2003, if the need again arises.

We may file requests for rate increases to cover the rise in the costs of purchased gas. Due to the nature of the regulatory process, there is a risk of a disallowance of full recovery of these costs during any period in which there has been a substantial run-up of these costs or our costs are more volatile. Any disallowance of purchased gas costs may reduce cash flow and earnings.

Increases in the cost of natural gas may arise from a variety of factors, including weather, changes in demand, the level of production and availability of natural gas, transportation constraints, federal and state energy and environmental regulation and legislation, the degree of market liquidity, natural disasters, wars, and other catastrophic events and the success of our strategies in managing price risk.

Governmental policies and regulatory actions can reduce our earnings.

Governmental policies and regulatory actions, including those of the ACC, the CPUC, the FERC, and the PUCN with respect to allowed rates of return, rate structure, purchased gas and investment recovery, operation and construction of facilities, present or prospective wholesale and retail competition, changes in tax laws and policies, and changes in and compliance with environmental and safety laws and policies, can reduce our earnings. Risks and uncertainties relating to delays in obtaining regulatory approvals, conditions imposed in regulatory approvals, or determinations in regulatory investigations can also impact financial performance.

We are unable to predict what types of conditions might be imposed on Southwest or what types of determinations might be made in pending or future regulatory proceedings or investigations. We nevertheless believe that it is not uncommon for conditions to be imposed in regulatory proceedings, for Southwest to agree to conditions as part of a settlement of a regulatory proceeding or for determinations to be made in regulatory investigations that will reduce our earnings and liquidity. For example, we may request a particular operating expense in a general rate case filing that a regulator disallows recovery of.

Significant customer growth in Arizona and Nevada could strain our capital resources.

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We continue to experience significant population and customer growth throughout our service territories. During 2002, we added 58,000 customers, a four percent growth rate. Over the last several years, customer growth has averaged five percent. This growth has required large amounts of capital to finance the investment in new transmission and distribution plant. In 2002, our natural gas construction expenditures totaled \$264 million. Approximately 66 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 (net of dividends) have been inadequate, and are expected to continue to be inadequate, to fund all necessary capital expenditures. We have been funding this shortfall through the issuance of additional debt and equity securities, and will continue to do so. Our ability to issue additional securities is dependent upon, among other things, conditions in the capital markets, regulatory authorizations, and our level of earnings.

Significant customer growth in Arizona and Nevada could also impact earnings.

Our ability to earn the rates of return authorized by the ACC and the PUCN is also more difficult because of significant customer growth. The rates we charge our distribution customers in Arizona and Nevada are derived using rate base, cost of service, and cost of capital experienced in an historical test year, as adjusted. This results in regulatory lag which delays our recovery of some of the costs of capital improvements and operating costs from customers in Arizona and Nevada.

Our earnings are greatly affected by variations in temperature during the winter heating season.

The demand for natural gas is seasonal and is greatly affected by temperature. Variability in weather from normal temperatures can materially impact results of operations. On cold days, use of gas by residential and commercial customers may be as much as six times greater than on warm days because of the increased use of gas for space heating. Weather has been and will continue to be one of the dominant factors in our financial performance.

Uncertain economic conditions may affect our ability to finance capital expenditures.

Our ability to finance capital expenditures and other matters will depend upon general economic conditions in the capital markets. The direction of interest rates is uncertain. Declining interest rates are generally believed to be favorable to utilities while rising interest rates are believed to be unfavorable because of the high capital costs of utilities. In addition, our authorized rate of return is based upon certain assumptions regarding interest rates. If interest rates are lower than assumed rates, our authorized rate of return in the future could be reduced. If interest rates are higher than assumed rates, it will be more difficult for us to earn our currently authorized rate of return.

FORWARD-LOOKING STATEMENTS

This prospectus, any accompanying prospectus supplement and the additional information described under the heading **Where You Can Find More Information** may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, based on information currently available to our management. When we use words such as *believes, expects, anticipates, intends, plans, estimates, should* or similar expressions, we are making forward-looking statements. Forward-looking statements include the information concerning possible or assumed future results of operations set forth under **Business and Management's Discussion and Analysis of Financial Condition and Results of Operations** in our Annual Report on Form 10-K and any Quarterly Report on Form 10-Q incorporated by reference into this prospectus.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results and shareholder value may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. These statements are necessarily based upon various assumptions involving judgments with respect to the future, including, among others, our ability to achieve revenue growth, national, regional and local economic, competitive and regulatory conditions and developments, technological developments, capital market conditions, inflation rates, interest rates, energy markets, weather conditions, business and regulatory or legal decisions, the pace of deregulation of retail natural gas and electricity, the timing and extent of changes in commodity prices for oil, natural gas and electricity, the timing and amount of rate relief, changes in gas procurement practices, changes in capital requirements and funding, the impact of conditions in the capital markets on financing costs, acquisitions and competition. You are cautioned not to put undue reliance on any forward-looking statements. For those statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. We do not, by including this statement, assume any obligation to publicly update or revise any particular forward-looking statement in light of future events.

You should also consider any other factors contained in this prospectus or in any accompanying supplement, including the information incorporated by reference into this prospectus or into any accompanying supplement.

WHERE YOU CAN FIND MORE INFORMATION

Available Information

Southwest files reports, proxy statements and other information with the SEC. Information filed with the SEC by Southwest can be read and copied at the Public Reference Room maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549.

You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC's Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC maintains a web site that contains reports, proxy statements and other information about issuers, such as Southwest, who file electronically with the SEC. The address of that site is www.sec.gov. We also make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports available, free of charge, through our web site at www.swgas.com as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC. Information contained on Southwest's web site does not constitute part of this prospectus.

Southwest's common stock is listed on the New York Stock Exchange (NYSE: SWX) and the Pacific Stock Exchange (PSE: SWX), and reports, proxy statements and other information concerning Southwest can also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005 and at the offices of the Pacific Stock Exchange, 301 Pine Street, San Francisco, California 94104. In addition, reports, proxy statements and other information concerning Southwest can be inspected at its offices at 5241 Spring Mountain Road, Las Vegas, Nevada 89150.

This prospectus is part of a registration statement that we and Southwest Gas Capital II, Southwest Gas Capital III and Southwest Gas Capital IV filed with the SEC. The full registration statement may be obtained from the SEC or Southwest, as indicated below. Forms of the indentures, and other documents establishing the terms of the offered securities and the preferred trust securities guarantee, may be filed as exhibits to the registration statement or in a current report on Form 8-K. Statements in this prospectus about these documents are summaries. You should refer to the actual documents for a more complete description of the relevant matters.

Incorporation by Reference

The rules of the SEC allow us to incorporate by reference information into this prospectus, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede that information. The prospectus incorporates by reference the documents set forth below that have been previously filed with the SEC. These documents contain important information about Southwest.

<u>SEC Filings</u>	<u>Period</u>
Annual Report on Form 10-K	Year Ended December 31, 2002
Quarterly Reports on Form 10-Q	Quarter ended March 31, 2003
Current Reports on Form 8-K	Dated January 24, 2003, June 18, 2003, July 18, 2003 and July 22, 2003

We are also incorporating by reference the description of Southwest's common stock contained in its Form 8-K dated July 22, 2003 and all additional documents that we may file with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 between the date of the initial filing of the registration statement of which this prospectus is a part and the effectiveness of the registration statement, as well as between the date of this prospectus and the termination of the offering of securities described in this prospectus.

Southwest will provide, without charge, to each person to whom a copy of this prospectus has been delivered a copy of any and all of these filings. You may request a copy of these filings by writing or telephoning us at:

Southwest Gas Corporation
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, Nevada 89193-8510
Attention: Corporate Secretary

Telephone: (702) 876-7237

SOUTHWEST GAS CORPORATION

Southwest is a California corporation principally engaged in the business of purchasing, transporting and distributing natural gas in portions of Arizona, Nevada and California. Our several service areas are geographically as well as economically diverse. 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. We are also the largest distributor and transporter of natural gas in Nevada, serving the Las Vegas metropolitan area and northern Nevada. In addition, we distribute and transport natural gas in portions of California, including the Lake Tahoe area and the high desert and mountain areas in San Bernardino County. Southwest also provides local gas distribution companies with trenching and installation, replacement and maintenance services for underground natural gas distribution systems, through Northern Pipeline Construction Co., a wholly owned subsidiary.

Southwest is subject to regulation by the Arizona Corporation Commission (ACC), the Public Utilities Commission of Nevada (PUCN), and the California Public Utilities Commission (CPUC). The CPUC regulates the issuance of all securities by Southwest, with the exception of short-term borrowings. Certain of Southwest's accounting practices, transmission facilities and rates are subject to regulation by the Federal Energy Regulatory Commission (FERC).

Our administrative offices are located at 5241 Spring Mountain Road, P.O. Box 98510, Las Vegas, Nevada 89193-8510, telephone number (702) 876-7237.

THE TRUSTS

Southwest Gas Capital II, Southwest Gas Capital III and Southwest Gas Capital IV (individually a Trust and collectively the Trusts) are statutory trusts formed under Delaware law pursuant to (i) a trust agreement (the trust agreement) executed by Southwest, as sponsor for the Trusts (the Sponsor), and Trustees (as defined herein) of the Trusts and (ii) the filing of a certificate of trust with the Secretary of State of the State of Delaware on June 23, 2003. Each Trust exists for the exclusive purposes of (i) issuing the preferred trust securities and common trust securities representing undivided beneficial interests in the assets of the Trusts (the common trust securities and, together with the preferred trust securities, the trust securities), (ii) investing the gross proceeds from the sale of the trust securities in the trust debt securities, and (iii) engaging in only those other activities necessary or incidental thereto.

Each Trust's business and affairs will be conducted by the trustees (the Trustees) appointed by Southwest as the direct holder of all the common trust securities. Unless an event of default under a trust agreement has occurred and is continuing, the holder of the common trust securities will be entitled to appoint, remove or replace any of, or increase or reduce the number of, the Trustees of the Trusts; provided that the number of Trustees may not be reduced to less than one for any particular Trust. The number of Trustees of each Trust will initially be three, one of which will have its principal place of business in the State of Delaware. The duties and obligations of the Trustees will be governed by the Trust Agreements. The address for the Trusts is c/o Southwest Gas Corporation, the sponsor of the Trusts, at Southwest's corporate headquarters located at 5241 Spring Mountain Road, Las Vegas, Nevada 89150, telephone (702) 876-7237.

USE OF PROCEEDS

Unless stated otherwise in the prospectus supplement, the proceeds from the sale of offered securities will be used to retire indebtedness, redeem the currently outstanding trust-originated preferred securities of Southwest Gas Capital I and for general corporate purposes, including the acquisition of property for the construction, completion, extension or improvement of pipeline systems and facilities located in and around the communities Southwest serves.

ACCOUNTING TREATMENT RELATED TO PREFERRED TRUST SECURITIES

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The financial statements of each Trust will be consolidated with our financial statements, with the preferred trust securities shown on our consolidated financial statements as mandatorily redeemable preferred trust securities. Our financial statements will include a footnote that discloses, among other things, that the assets of a Trust consist of our trust debt securities and will specify the designation, principal amount, interest rate or formula and maturity date of the trust debt securities.

RATIOS OF EARNINGS TO FIXED CHARGES

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

	For the Twelve Months Ended March 31, 2003	For the Year Ended December 31,				
		2002	2001	2000	1999	1998
Ratios of earnings to fixed charges (1):	1.37	1.68	1.59	1.60	1.78	2.08

- (1) For purposes of computing the ratios of earnings to fixed charges, earnings are defined as the sum of pretax income from continuing operations 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), preferred securities distributions, and amortized debt costs.

DESCRIPTION OF DEBT SECURITIES

The following description sets forth the general terms and provisions of the debt securities that Southwest may offer by this prospectus. The indebtedness represented by the debt securities will rank equally with all other unsecured and unsubordinated debt.

The debt securities will be issued in one or more series under the indenture dated July 15, 1996 between us and BNY Midwest Trust Company, as successor trustee to The Bank of New York, as trustee. The indenture gives us broad authority to set the particular terms of each series of debt securities, including the right to modify certain of the terms contained in the indenture. The particular terms of a series of debt securities and the extent, if any, to which the particular terms of the issue modify the terms of the indenture will be described in the prospectus supplement relating to the debt securities.

The indenture contains the full legal text of the matters described in this section. Because this section is a summary, it does not describe every aspect of the debt securities or the indenture. This summary is subject to and qualified in its entirety by reference to all the provisions of the indenture, including definitions of terms used in the indenture. We also include references in parentheses to certain sections of the indenture. Whenever we refer to particular sections or defined terms of the indentures in this prospectus or in a prospectus supplement, these sections or defined terms are incorporated by reference herein or in the prospectus supplement. This summary also is subject to and qualified by reference to the description of the particular terms of the debt securities described in the prospectus supplement or supplements.

General

We may issue an unlimited amount of debt securities under the indenture in one or more series. We need not issue all debt securities of one series at the same time and, unless otherwise provided, we may reopen a series, without the consent of the holders of the debt securities of that series, for issuances of additional debt securities of that series. The debt securities of Southwest will be unsecured obligations.

We refer you to the prospectus supplement for a description of the following terms of the series of debt securities:

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- (a) the title of the debt securities;
- (b) any limit upon the principal amount of the debt securities;
- (c) the date or dates on which principal will be payable or how to determine the dates;
- (d) the rate or rates or method of determination of interest; the date from which interest will accrue; the dates on which interest will be payable, which we refer to as the interest payment dates; and any record dates for the interest payable on the interest payment dates;

- (e) any obligation or option to redeem, purchase or repay debt securities, or any option of the registered holder to require Southwest to redeem or repurchase debt securities, and the terms and conditions upon which the debt securities will be redeemed, purchased or repaid;
- (f) the denominations in which the debt securities will be issuable (if other than denominations of \$1,000 and any integral multiple thereof);
- (g) whether the debt securities are to be issued in whole or in part in the form of one or more global debt securities and, if so, the identity of the depository for the global debt securities;
- (h) whether the debt securities are to be issued in whole or in part in bearer form and, if so, the terms and conditions for the payment of interest;
- (i) the opportunity to convert or exchange debt securities to common stock, preferred stock or other debt securities; and
- (j) any other terms of the debt securities.

Payment of Debt Securities

Interest

Unless indicated differently in a prospectus supplement, we will pay interest on the debt security on each interest payment date by check mailed and/or wire transferred to the person in whose name the debt security is registered as of the close of business on the regular record date relating to the interest payment date, except that interest payable at stated maturity, upon redemption or otherwise, will be paid to the person to whom principal is paid.

However, if we default in paying interest on a debt security, we will pay defaulted interest in either of the two following ways:

- (a) We will first propose to the trustee a payment date for the defaulted interest. Next, the trustee will choose a special record date for determining which registered holders are entitled to the payment. The special record date will be between 10 and 15 days before the payment date we propose. Finally, we will pay the defaulted interest on the payment date to the registered holder of the debt security as of the close of business on the special record date.
- (b) Alternatively, we can propose to the trustee any other lawful manner of payment that is consistent with the requirements of any securities exchange on which the debt securities are listed for trading. If the trustee thinks the proposal is practicable, payment will be made as proposed.

Principal

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Unless we indicate differently in a prospectus supplement, we will pay principal of and any premium and interest on the debt securities at stated maturity, upon redemption or otherwise, upon presentation of the debt securities at the office of the trustee, as our paying agent. Any other paying agent initially designated for the debt securities of a particular series will be named in the prospectus supplement.

In our discretion, we may change the place of payment on the debt securities, and may remove any paying agent and may appoint one or more additional paying agents.

Form; Transfers; Exchanges

The debt securities will be issued in fully registered, bearer, coupon or global form and in denominations that are even multiples of \$1,000, unless otherwise provided in a prospectus supplement.

With respect to debt securities that are not issued in book-entry form, you may exchange or transfer debt securities of a series issued in one denomination for debt securities of the same series issued in different

denominations that are even multiples of \$1,000, unless otherwise provided in the prospectus supplement. The trustee acts as our agent for registering debt securities in the names of holders and transferring debt securities. We may appoint another agent or act as our own agent for this purpose. The entity performing the role of maintaining the list of registered holders is called the security registrar. It will also perform transfers.

In our discretion, we may change the place for registration of transfer of the debt securities and may remove and/or appoint one or more additional security registrars.

Except as otherwise provided in a prospectus supplement, there will be no service charge for any such transfer or exchange of the debt securities, but you may be required to pay a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange. We may block any such transfer or exchange of (a) debt securities during a period of 15 days prior to giving any notice of redemption or (b) any debt security selected for redemption in whole or in part, except the unredeemed portion of any debt security being redeemed in part.

Global Securities

The debt securities may be issued in the form of one or more global securities that will be deposited with a depository identified in the prospectus supplement. Under this arrangement, the depository will hold the certificate for the debt securities and establish a book entry registration and transfer system to cover the beneficial ownership of the debt securities. The book entry registration and transfer system is designed to eliminate the need to hold individual certificates representing the debt securities and ease the transfer and exchanges of interests, without affecting the rights and interests you may have as an owner of an interest in the debt securities. The specific terms of the depository arrangement with respect to any debt securities to be issued in global form will be described in the prospectus supplement.

Redemption

We will set forth any terms for the redemption of debt securities in a prospectus supplement. Unless we indicate differently in a prospectus supplement, and except with respect to debt securities redeemable at the option of the registered holder, debt securities will be redeemable upon notice by mail between 30 and 60 days prior to the redemption date. If less than all of the debt securities of any series or any part of a series are to be redeemed, the trustee will select the debt securities to be redeemed. In the absence of any provision for selection, the trustee will choose a method of random selection it deems fair and appropriate.

Debt securities will cease to bear interest on the redemption date. We will pay the redemption price and any accrued interest once you surrender the debt security for redemption. If only part of a debt security is redeemed, the trustee will deliver to you a new debt security of the same series for the remaining portion without charge.

We may make any redemption conditional upon the receipt by the paying agent, on or prior to the date fixed for redemption, of money sufficient to pay the redemption price. If the paying agent has not received the money by the date fixed for redemption, we will not be required to redeem the debt securities.

Events of Default

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An event of default occurs with respect to debt securities of any series if:

- (a) we do not pay any interest on any debt securities of the series within 30 days of the due date;
- (b) we do not pay principal or premium on any debt securities of the series on its due date;
- (c) we do not pay any sinking fund payments, when due, on any debt securities of the series;
- (d) we remain in breach of a covenant or warranty (excluding covenants and warranties solely to a specific series) of the indenture for 60 days after we receive a written notice of default stating we are in breach and requiring remedy of the breach; the notice must be sent by either the trustee or registered holders of 25% of the principal amount of debt securities of the series;

- (e) we do not pay any portion of the principal of any other debt, including debt securities of any other series, with the principal amount outstanding of at least \$15,000,000, when due and payable, for ten business days after we have received written notice of the default stating we are in breach and requiring remedy of the breach; notice must be sent by either the trustee or registered holders of 25% of the principal amount of debt securities of the series;
- (f) file for bankruptcy or other specified events in bankruptcy, insolvency, receivership or reorganization occur; or
- (g) any other event of default specified in the prospectus supplement occurs.

No event of default with respect to a series of debt securities necessarily constitutes an event of default with respect to the debt securities of any other series issued under the indenture.

Remedies

Acceleration

If an event of default occurs and is continuing with respect to any series of debt securities, then either the trustee or the registered holders of 25% in principal amount of the outstanding debt securities of that series may declare the principal amount of all of the debt securities of that series to be due and payable immediately. There is no automatic acceleration, even in the event of our bankruptcy, insolvency, receivership or reorganization.

Rescission of Acceleration

After the declaration of acceleration has been made and before the trustee has obtained a judgment or decree for payment of the money due, the declaration and its consequences will be rescinded and annulled, if:

- (a) we pay or deposit with the trustee a sum sufficient to pay:
 - (1) all overdue interest;
 - (2) the principal of and any premium which have become due otherwise than by the declaration of acceleration and overdue interest on these amounts;
 - (3) interest on overdue interest to the extent lawful; and
 - (4) all amounts due to the trustee under the indenture; and
- (b)

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all events of default, other than the nonpayment of the principal which has become due solely by the declaration of acceleration, have been cured or waived as provided in the indenture.

For more information as to waiver of defaults, see *Waiver of Default and of Compliance* below.

Control By Registered Holders; Limitations

Subject to the indenture, if an event of default with respect to the debt securities of any one series occurs and is continuing, the registered holders of a majority in the principal amount of the outstanding debt securities of that series will have the right to:

- (a) direct the time, method and place of conducting any proceeding for any remedy available to the trustee; or
- (b) exercise any trust or power conferred on the trustee with respect to the debt securities of the series; provided that
 - (i) the registered holders' directions will not conflict with any law or the indenture; and
 - (ii) the registered holders' directions may not involve the trustee in personal liability where the trustee believes indemnity is not adequate.

The trustee may also take any other action it deems proper which is consistent with the registered holders' direction.

In addition, the indenture provides that no registered holder of any debt security will have any right to institute any proceeding, judicial or otherwise, with respect to the indenture for the appointment of a receiver or for any other remedy thereunder unless:

- (a) that registered holder has previously given the trustee written notice of a continuing event of default;
- (b) the registered holders of 25% in aggregate principal amount of the outstanding debt securities of all affected series, considered as one class, have made written request to the trustee to institute proceedings in respect of that event of default;
- (c) the registered holders have offered the trustee reasonable indemnity against costs and liabilities incurred in complying with the request; and
- (d) for 60 days after receipt of the notice, the trustee has failed to institute a proceeding and no direction inconsistent with the request has been given to the trustee during the 60-day period by the registered holders of a majority in aggregate principal amount of outstanding debt securities of the affected series.

Furthermore, no registered holder will be entitled to institute any action if and to the extent that the action would disturb or prejudice the rights of other registered holders.

However, each registered holder has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right.

Notice of Default

The trustee is required to give the registered holders of the debt securities notice of any default under the indenture to the extent required by the Trust Indenture Act, unless the default has been cured or waived; except that in the case of an event of default of the character specified above in clause (d) under Events of Default, no notice shall be given to the registered holders until at least 30 days after the occurrence thereof. The Trust Indenture Act currently permits the trustee to withhold notices of default (except for certain payment defaults) if the trustee in good faith determines the withholding of the notice to be in the interests of the registered holders.

We will furnish the trustee with an annual statement as to the compliance by Southwest with the conditions and covenants in the indenture.

Waiver of Default and of Compliance

The registered holders of a majority in aggregate principal amount of the outstanding debt securities of any series may waive, on behalf of the registered holders of all debt securities of the series, any past default under the indenture, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the indenture that cannot be amended without the consent of the registered holder of each outstanding debt security.

Compliance with certain covenants in the indenture or otherwise provided with respect to debt securities may be waived by the registered holders of a majority in aggregate principal amount of the affected debt securities, considered as one class.

Consolidation, Merger and Conveyance of Assets as an Entirety; No Financial Covenants

Subject to the provisions described in the next paragraph, Southwest will preserve its corporate existence.

Southwest has agreed not to consolidate with or merge into any other entity, or to convey, transfer or lease its properties and assets substantially as an entirety to any entity, unless:

- (a) the entity formed by the consolidation or into which Southwest is merged, or the entity which acquires or which leases the property and assets of Southwest substantially as an entirety, is an entity organized and existing under the laws of the United States of America or any State thereof or the District of Columbia, and expressly assumes, by supplemental indenture, the due and punctual payment of the principal, premium and interest on all the outstanding debt securities (or the debt securities guarantees endorsed thereon, as the case may be) and the performance of all of the covenants of Southwest as the case may be, under the indenture; and
- (b) immediately after giving effect to the transactions, no event of default, and no event which after notice or lapse of time or both would become an event of default, will have occurred and be continuing.

The indenture does not contain any fin